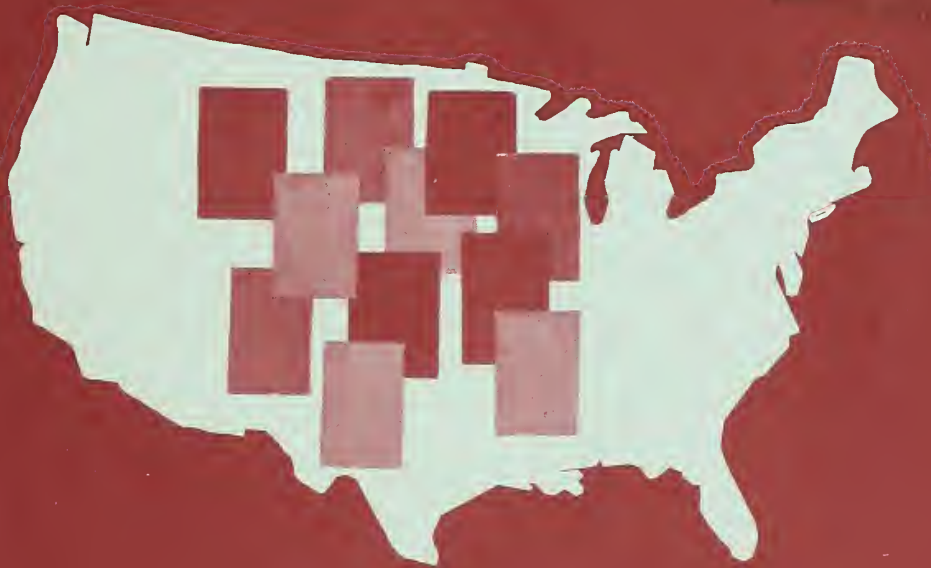


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COOPERATIVE BARGAINING
DEVELOPMENTS IN THE
DAIRY INDUSTRY, 1960-70
With Emphasis on the
Central United States



United States Department of Agriculture

7501
U.S. Farmer Cooperative Service.
Washington, D.C. 20250

Farmer Cooperative Service conducts research, advises directly with cooperative leaders and others, promotes cooperative organization and development through other Federal and State agencies, publishes results of its research, and issues *News for Farmer Cooperatives* and other educational material.

This work is aimed (1) to help farmers get better prices for their products and reduce operating expenses, (2) to help rural and small-town residents use cooperatives to develop rural resources, (3) to help these cooperatives expand their services and operate more efficiently, and (4) to help all Americans understand the work of these cooperatives.

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Preface

During the past decade, dairy farmers moved rapidly into new bargaining activities to provide producers with more adequate incomes. Motivating factors have been depressed milk prices, depressed incomes, and reduced dairy farm numbers. Initially, a number of midwestern milk marketing cooperatives worked together in forming two large federated bargaining associations in the early to mid-1960's. Then came a sequence of consolidations and mergers within these two federations by local cooperatives, resulting in several multimarket regional cooperatives. These merged regionals in turn became members of their respective federations.

These newly formed regional cooperatives and the local cooperatives who are members of the federations have worked on improving bargaining and handling, allocating, and processing milk supplies. Increased interest in more effective dairy bargaining methods and their possible application to other agricultural commodities prompted the author and the U.S. Department of Agriculture (USDA) to publish this report on recent developments in 20 midwestern fluid-milk markets.

Farmer Cooperative Service (FCS) partially financed this study through a contract with Purdue University, Lafayette, Ind. Homer J. Preston, Deputy Administrator, Program Management; George C. Tucker, Senior Agricultural Economist, Dairy; Donald R. Davidson, Agricultural Economist, Research and Advisory Service, FCS, USDA, assisted the author in problem formulation and research procedure. Financial support and technical assistance of FCS is gratefully acknowledged.

The author also acknowledges the help of Larry Jones and B. L. Flinchbaugh, graduate assistants at Purdue, and the cooperation of both cooperative and processor industry managers who provided basic data in an extensive interview procedure.

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Highlights

Milk prices have been raised in the central United States largely by the efforts of four regional producer cooperatives bargaining with milk processors. This bargaining experiment may be one of the first times cooperatives have succeeded in raising farm prices of a major agricultural product throughout a large area of the country. The dairy experience now makes cooperative bargaining a tool for producers of other farm products to consider seriously.

The four producer cooperatives currently market over 70 percent of the milk—26 million pounds annually for 70,000 producers—in many metropolitan areas from Ohio to Colorado and from the Great Lakes to the Gulf of Mexico. They were formed during 1967-70 from over 170 local dairy cooperatives in the central United States.

Milk producers throughout the country began to turn to cooperative bargaining as a result of low milk prices and producer incomes during 1950-64, a time of chronically excess milk supplies and depressed consumption. Bargaining was done first through large federations comprised of individual cooperatives. Later, some cooperatives within the federations merged, resulting in formation of large regional cooperatives.

The main emphasis of bargaining activities of the four regionals during the period they were studied was on raising the level of milk prices. Significant bargaining power largely depends on cooperative ability to control the product in the short and long run; thus, these cooperatives used specific strategies to achieve such control. Their control of milk supplies in a large number of markets limited the alternative sources of milk available to processors. Through coordination of production and marketing activities of producer members, the cooperatives were able to divert surplus grade A milk supplies into milk's important secondary outlet—manufactured products—which improved the cooperatives' bargaining position with fluid-milk processors.

Three other significant bargaining tools were used by these four regional cooperatives. They adjusted prices when these

differed from one market to another, so that differences in these prices equaled transportation costs of moving milk from a lower to a higher priced market. They were then able to raise prices in all the markets. With the standby pool, the regionals absorbed the large supply of grade A milk in Wisconsin and Minnesota that had either no fluid-use outlet or only a very small one. By controlling this milk, these cooperatives achieved greater market stability. Finally, the regionals guaranteed handlers they would supply handlers' full milk needs. In return, handlers paid the cooperatives premiums over Federal order prices.

Cooperative bargaining success in the dairy industry will probably spur further bargaining and merger activity during the 1970's. As milk cooperatives continue to grow in size, however, problems will probably be encountered involving increases in milk production, conversion of producers in surplus production areas from grade B to grade A milk, nonmember competition, and producer communication and control. Solutions to these problems will, in large measure, determine the longterm success of dairy cooperative bargaining efforts.

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Cooperative Bargaining Developments in the Dairy Industry, 1960-70... with Emphasis on the Central United States

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By Ronald D. Knutson*

In the milk industry during the 1960's, renewed emphasis was placed on cooperative bargaining as a self-help method of improving the milk producer's market and income position. Acting through their cooperatives, milk producers undertook an experiment in bargaining with milk processors on a regional basis for higher prices. These producers organized largescale multimarket regional and interregional cooperatives—an experiment which many people had previously predicted was doomed to failure. Some economists and other researchers in agriculture suggest that the dairy experience in bargaining may become a model for such efforts in other areas of agriculture. Others suggest that if the dairy bargaining effort fails in the future, the result may be a conclusive end to self-help cooperative bargaining efforts in major agricultural commodities. This result could be prevented by major legislative changes more favorable to such cooperative bargaining than past legislation has been.

Heretofore, bargaining successes in other agricultural commodities, as well as in the dairy industry, have been achieved on a considerably more limited single-market basis by individual cooperatives enjoying truly dominant market positions. One of the main drawbacks to effective collective bargaining for major farm commodities has been the inability of individual producers or bargaining organizations or

both to coordinate their activities and effectively limit alternative sources of supply available to processors. It is this limitation of alternative sources of supply, subject to processors meeting producers' pricing demands, which provides the basis for effective bargaining in both the short and long run.

During the early to mid-1960's, a number of midwestern milk marketing cooperatives formed two large federated bargaining cooperative agents—Great Lakes Milk Marketing Federation and Associated Dairymen, Inc. One of the main goals of these federated cooperatives was to coordinate cooperative milk marketing activities, thus allowing members to negotiate more effectively with milk processors for premiums over Federal milk market order price. The success of these federated organizations in coordinating cooperative activity and overcoming intercooperative rivalry and the organizational weaknesses inherent in the federated structure precipitated cooperative mergers—regional cooperatives—throughout the central and southeastern portions of the United States.¹

¹ A federated cooperative is a corporation whose membership includes local cooperatives that maintain independent corporate status. The terms "merger" and "consolidation" will be used interchangeably in this report. Legally, a merger exists when one corporation, the acquiring concern, absorbs another, the acquired concern. The acquiring concern remains in existence and the acquired concern is dissolved. A consolidation exists when two or more corporations are extinguished and a new one is created which takes over the assets and assumes the liabilities of those passing out of existence. Black, H. C., *Law Dictionary*. 4th ed., 1951, p. 382.

*Associate Professor, Agricultural Economics Department, Purdue University.

This bargaining experiment is probably the first instance where, for a major agricultural commodity, either cooperative or general farm organizations have appeared to be successful in raising farm prices throughout a large geographical area. Thus, this experiment provides

an excellent opportunity to analyze the possibilities for, effects of, and problems associated with collective bargaining in the dairy industry. Also, the applicability of a particular bargaining experience to other agricultural products can be analyzed.

Objectives

The specific objectives of the study were to:

1. Describe the changes which have occurred in the structure of fluid-milk markets in recent years, with emphasis on changes in producer organization.
2. Identify the activities of bargaining organizations in the dairy industry and

their relation to bargaining success.

3. Analyze the effect of bargaining groups on milk prices, producer returns, and milk processors.
4. Analyze the implications of bargaining efforts in the dairy industry for producers and their cooperatives in other commodity areas.

Procedure

The basic study procedure involved interviews for the purpose of data collection with both cooperative managers and milk processors. Initial interviews were conducted with leaders in Associated Dairymen, Inc., and Great Lakes Milk Marketing Federation. These were followed by interviews with the managers of 20 cooperatives in 20 different milk markets in the central United States. All of these cooperatives were members of one or the other of the two bargaining federations. In each of

the 20 markets, a stratified random sample of three milk processor-managers (handlers) was selected for interview.²

Data collected from cooperative managers related to price and market information as well as attitudes toward the bargaining organizations and their operation. Data collected from milk processors related largely to attitudes toward the bargaining organizations and their effects on processor operations and market activities.

Changing Structure and Economic Conditions in the Dairy Industry

Structural change in the dairy industry since the 1940's has been substantial. Changes on the producer side of the market cannot be considered in isolation from those on the processing and distribution side or from general economic conditions in the industry.

Milk Production and Consumption

The 1950's and early 1960's were characterized by chronically excess milk supplies.

From 1940 to 1964, annual milk production increased from 111 billion pounds to nearly 127 billion pounds. While production was rising, per capita consumption of dairy products in milk equivalent units (based on butterfat) declined from 818 pounds in 1940 to 631 pounds in 1964. This decline was largely offset by population increases during the period, resulting in a relatively stable total

²The stratified sample of handlers included 2 of the 4 largest handlers in each market and 1 of the smaller handlers.

milk consumption. Thus, in 1955 and 1963, USDA milk equivalent stocks of milk products reached peaks of 10.5 and 7.8 billion pounds, respectively.³ Milk prices and producer incomes during 1940-64 reflected this surplus production and depressed consumption. USDA *Costs and Returns* studies during this period persistently showed dairy farmers earning 75 cents or less per hour of family labor.⁴

Milk production began a persistent decline in 1964 from 127 billion pounds to 116 billion in 1969. This decline plus the increase in cooperative bargaining activities resulted in substantially improved prices and dairy farm income from 1965 to 1970. The potential of even higher milk prices was offset somewhat by a continuation of the trend toward lower per capita consumption and a reduced rate of population growth. This inflationary period was also characterized by increased costs for inputs used in producing milk—particularly hired labor and other purchased inputs. These increases in costs were, however, offset somewhat on a per hundredweight basis by increases in productivity due to relatively rapid increases in average herd size as well as increases in milk production per cow.

Milk Processing and Distribution

The milk processing and distribution segment of the dairy industry represents the buyer's side of the market which cooperatives must deal with in their bargaining efforts. Changes in this segment have had, and will probably continue to have, important effects on producer efforts to raise milk price levels. Two changes are emphasized here: (1) the decline in the number of milk plants and the associated rise of national and regional dairy concerns, and (2) the increased importance of the food retailer in milk processing and distribution.

³U.S. Department of Agriculture. *Dairy Statistics 1960-67*. Econ. Res. Serv., Stat. Bul. No. 430, July 1968.

⁴U.S. Department of Agriculture. *Costs and Returns: Commercial Dairy Farms*. Econ. Res. Serv., FCR 60-64.

The past two decades have been characterized by a persistent decline in the number of fluid milk processing plants in the United States. From 1948 to 1965, the number dropped from 8,484 to 3,981. There has been a further sharp decline since 1965. In the North Central region, which includes much of the area in the present study, plant numbers decreased from 2,962 in 1948 to 1,187 in 1965—a 60-percent decline in 17 years.⁵

Corresponding with this decline was a rise in the importance of national and regional dairy-processing concerns. Up to 1962, when the Federal Trade Commission imposed an order prohibiting further merger activity by four national dairy concerns, national and regional dairy companies grew largely by merger with proprietary companies. In December 1965, nine national dairy companies operated 7.7 percent of the plants in 85 milk markets and sold 28.8 percent of the milk.⁶

During the 1950's and 1960's, there was a relatively high-level seller concentration in most Federal order markets. For 69 order markets in March 1964, the average market share of the four largest processors was 73 percent.⁷ More recent expansionary changes in the size of milk markets have probably resulted in some decreases in this level of concentration.

The second important change in milk processing and distribution relates to the increasing importance of the food retailer as an active processing and distribution entity in the industry. From 1939 to 1969, grocery store sales of all food and nonfood products increased from \$7.7 billion to \$82.0 billion.⁸ During this same period, home-delivered milk

⁵Manchester, A.C. *The Structure of Fluid Milk Markets: Two Decades of Change*. U.S. Dept. Agr., Econ. Res. Serv., Agr. Econ. Rpt. 137, July 1968, p. 29.

⁶*Ibid.*, pp. 11-12.

⁷National Commission on Food Marketing. *Organization and Competition in the Dairy Industry*. Tech. Study No. 3, June 1966, p. 75.

⁸National Commission on Food Marketing. *Organization and Competition in Food Retailing*. Tech. Study No. 7, 1966, p. 9; and 37th Annual Report of the Grocery Industry, *Prog. Grocer*, vol. 49, no. 4, Apr. 1970, p. 47.

sales declined from 70 percent to less than 30 percent of total milk sales. The increased importance of the chainstore in fluid milk distribution, combined with a trend toward chain owned and operated milk-processing facilities, has substantially changed the competitive and bargaining positions of fluid milk processors. In 1965, 51 milk-bottling plants owned by supermarkets in the United States bottled 4.2 percent of the milk sold by commercial processors.⁹ In 1968, there were 17 retailer-owned milk plants in the North Central region. It is estimated that in 1970, retailer-owned facilities processed between 6 and 7 percent of the total fluid milk sold in the United States.

The increased importance of chainstore milk processing may have caused some of the national dairy concerns and cooperatives to reevaluate their relative position in the fluid milk industry. This reevaluation is evidenced by one national dairy concern's divesting itself of its milk-processing facilities in the California and New York City market areas. It is also evidenced by cooperatives' consideration of getting further involved in fluid milk processing or, alternatively, of further consolidating their bargaining position as a countervailing power to milk-processing food retailers.

Producer Organizations

Milk bargaining cooperatives are not a new phenomenon in the dairy industry.¹⁰ Bargaining was attempted in the Chicago market as early as 1887 by the Milk Shippers Central

Union of the Northwest.¹¹ This and other initial efforts in the bargaining area met with variable success. In addition, the status of bargaining cooperatives under both Federal and State antitrust statutes was uncertain up to the passage of the Capper-Volstead Act in 1922.

The Capper-Volstead Act and the subsequent establishment of Federal milk marketing orders tended to encourage cooperative activity in the dairy industry. During the early 1900's, milk markets were relatively isolated. As a result, individual cooperatives tended to form around each market. Through time, however, as cities grew to become metropolitan areas and transportation and refrigeration methods improved, isolated milk markets became a thing of the past. Cooperatives experienced a need to grow and merge with one another as their points of competitive contact in the market and the economies of size in milk procurement and surplus processing increased. From 1950 to 1968, the number of dairy cooperatives in the United States declined nearly 50 percent from 1,928 to 1,100 (table 1). On the other hand, volume of business per cooperative increased fourfold. In 1964, cooperatives marketed 66 percent of all milk sold to plants and dealers.¹² In 1967, Dobson found that about 86 percent of the producers in the Federal milk market order system were members of cooperatives.¹³

⁹ Manchester, *op. cit.*, p. 8.

¹⁰ In this report, bargaining cooperatives include all fluid milk marketing cooperatives that market milk largely or entirely in bulk to processors. Most bargaining cooperatives operate facilities for receiving, cooling, and processing surplus milk.

¹¹ Williams, Sheldon W., David A. Vose, Charles E. French, Hugh L. Cook, and Alden C. Manchester. *Organization and Competition in the Midwest Dairy Industries*. The Iowa State Univ. Press, Ames, Iowa, 1970, p. 63.

¹² Tucker, G. C. *Progress in the Last Seven Years*. Amer. Cooperation, Wash., D.C., 1966, p. 291.

¹³ Dobson, W. D., and E. M. Babb. *An Analysis of Alternative Price Structures and Intermarket Competition in Federal Order Milk Markets*. Purdue Univ. Agr. Expt. Sta. Res. Bul. No. 870, Dec. 1970, p. 5.

Table 1.—Dairy cooperatives: Number, membership, and business volume, United States, selected years, 1950/51 to 1967/68

Year	Cooperatives ¹	Membership		Business volume		Net per cooperative
		Total	Per cooperative	Total gross ²	Total net ³	
	<i>Number</i>	<i>1,000</i>	<i>Number</i>	<i>Million dollars</i>		<i>Dollars</i>
1950/51 . . .	1,928	814	422	2,299	1,934	1,003
1955/56 . . .	1,762	800	454	3,033	2,543	1,443
1960/61 . . .	1,500	630	420	3,893	3,243	2,162
1965/66 . . .	1,226	507	414	4,868	3,833	3,126
1966/67 . . .	1,174	459	391	5,028	4,169	3,551
1967/68 . . .	1,100	434	395	5,455	4,505	4,095

¹ Cooperatives receiving more than 50 percent of their business from dairy products.

² Includes intercooperative business.

³ Excludes intercooperative business.

Source: *Dairy Situation*. U.S. Dept. Agr., Sept. 1969.

Bargaining Activity in the Midwest, 1960-70

Bargaining activity in the Midwest during the 1960's began with the formation of cooperative federations. Within these, the local cooperatives maintained their status as separate corporations. Next, extensive merger activity occurred within each of the federations. This merger activity involved combining local cooperatives, with the result that several regional milk marketing cooperatives were formed.

Cooperative Federations

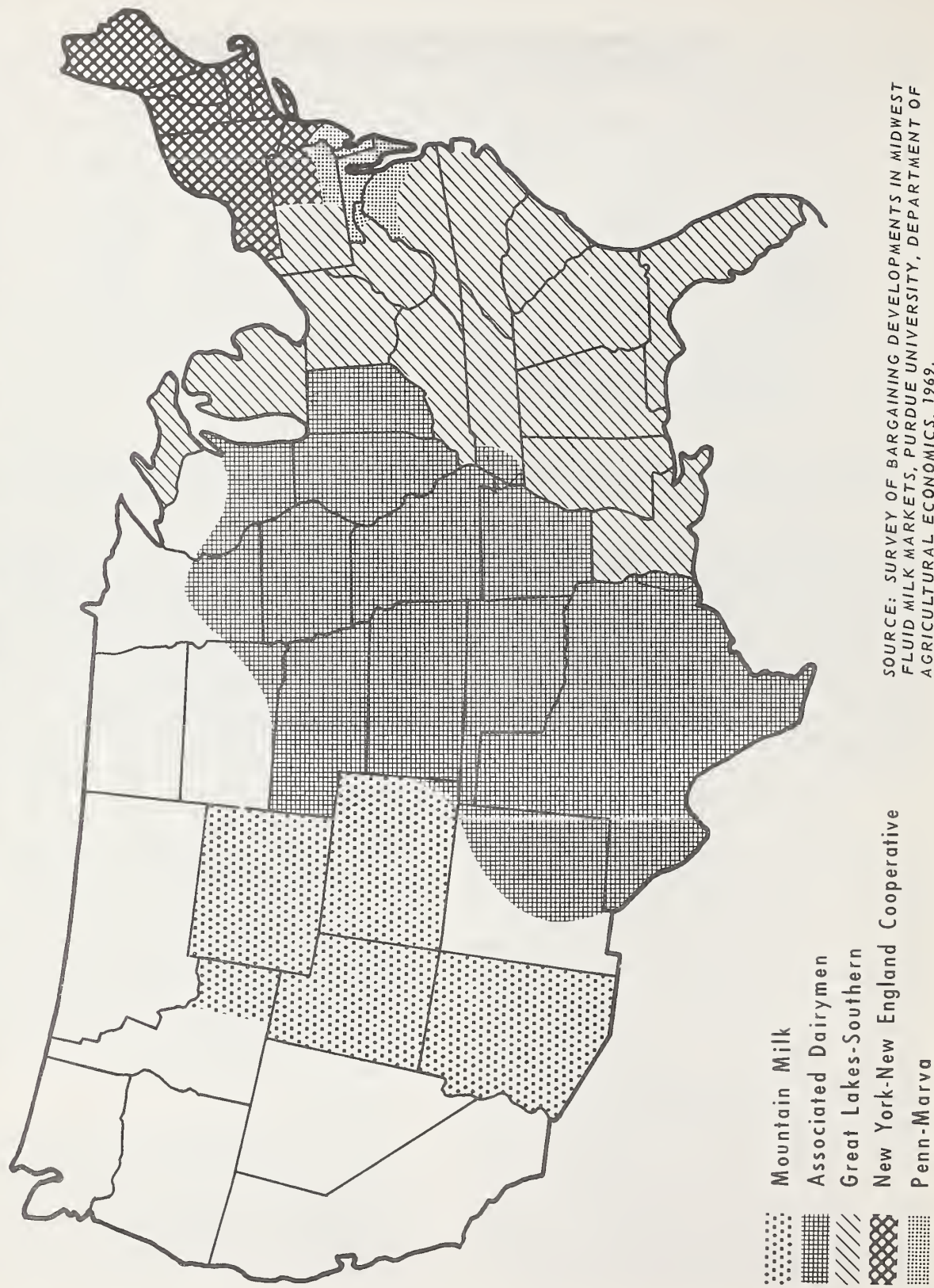
Consolidation of bargaining activities in the midwestern fluid milk industry began in 1960, when five major producer cooperatives in the Detroit, Toledo, Cleveland, and Pittsburgh areas joined together to form the Great Lakes Milk Marketing Federation. This organization has since expanded under its new name, Great Lakes-Southern Milk, Inc., to include cooperatives in an area from the Canadian border to the Gulf of Mexico and from the eastern seaboard to the Mississippi River (fig. 1). In 1969, 20 cooperatives belonged to Great Lakes-Southern. They had 34,000 members producing 13.2 billion pounds of milk (table 2). This production represented 11.3 percent of total U.S. milk production and approximately 70 percent of the grade A milk produced in the Great Lakes-Southern market area.

Associated Dairymen, Inc., was formed in 1964 by 15 cooperatives in an area stretching from Minnesota and Wisconsin to Texas, and from Indiana to Kansas and Nebraska (fig. 1). These cooperatives handled about 20 billion pounds of milk in 1970—17.2 percent of total U.S. milk production—produced by over 50,000 farmer members (table 2).

Associated Dairymen and Great Lakes-Southern are the two major federated bargaining cooperatives in the central United States, and the largest such groups in the country. Other federations of cooperatives which have been formed since 1966 include the New York-New England Dairy Cooperative Coordinating Committee; Penn-Marva Dairymen's Cooperative Federation in the Philadelphia-Baltimore-Washington area; Mountain Milk, Inc., in the western United States; Central Milk Producers Coop in the Chicago market area; Federated Milk Producers in the Midwest; and Florida Dairy Farmers Federation (fig. 1).

As indicated previously, this report is mainly concerned with bargaining cooperatives in the central United States. This restriction was made largely because cooperatives affiliated with Associated Dairymen and Great Lakes-Southern have, by their emphasis on bargaining, given bargaining its major stimulus within the

FIGURE 1.--MAIN COOPERATIVE MILK MARKETING FEDERATIONS, 1970



SOURCE: SURVEY OF BARGAINING DEVELOPMENTS IN MIDWEST FLUID MILK MARKETS, PURDUE UNIVERSITY, DEPARTMENT OF AGRICULTURAL ECONOMICS, 1969.

Table 2.—Principal cooperative milk bargaining federations, by year organized and size, United States, 1970

Federation	Year organized	Producers	Annual volume
		<i>Number</i>	<i>Billion pounds</i>
Associated Dairymen, Inc.	1964	53,000	20.0
Great Lakes-Southern Milk, Inc.	1960	34,000	13.2
New York-New England Dairy Cooperative Coordinating Committee	1966	25,000	10.0
Central Milk Producers Coop.	1968	15,000	6.0
Federated Milk Producers	1968	10,000	3.0
Penn-Marva Producers	1968	5,000	3.0
Mountain Milk, Inc.	1968	2,400	1.8
Florida Dairy Farmers Federation	1969	500	1.0

Source: Survey of bargaining developments in midwestern fluid milk markets, Dept. Agr. Econ., Purdue Univ., 1969; Farmer Coop. Serv. data; A. J. Ortego, Jr., Current and Prospective Programs and Policies in the Future for the United States, No. Central Regional-70 Seminar, Chicago, Sept. 1970.

dairy industry. Their emphasis distinguishes them from other federated groups in the United States. Accordingly, unless otherwise indicated, the following discussion refers mainly to the activities of milk marketing cooperatives belonging to either of these two federations.

Incentives for Federation Activity

When a change in producer organization such as the federation movement occurs, the immediate question is why. The reasons for the initial movement appear to center around four major areas:

1. As indicated previously, milk producer incomes during the late 1950's and the early to mid-1960's were extremely low. They were low absolutely—in 1960, the return per hour of labor in dairying was 33 cents. They were also low relative to what farmers could earn in other agricultural areas and outside agriculture. And they were low relative to the amount of work required. Thus, dairy farmers looked for alternative sources of income outside dairy farming. From 1955 to 1965, the number of farms having milk cows declined by about 61 percent. Other dairy farmers thought that cooperative bargaining activity offered a

feasible alternative method of improving their income.

2. Technological changes in milk production, procurement, transportation, processing, and distribution transformed markets from being isolated to being highly interdependent. These changes led cooperatives to have initially a protective market attitude. Two manifestations of this attitude were compensatory payments under the Federal order pricing system and sanitary regulations. But the market-protecting effect of these achievements was nullified by court decisions in the 1950's and early 1960's. An inability to isolate markets, combined with a pronounced trend toward a single grade of milk, led producers to conclude that they needed to coordinate cooperative activities if they were going to effectively control milk movements and influence milk prices.
3. In 1964, milk production began to decline, and the decline in dairy farm numbers appeared to accelerate. These developments caused a concern about the future of the dairy industry in terms of its economic and political influence.
4. The National Farmers Organization (NFO) activities in agriculture and more specifically in the dairy industry

Table 3.—Goals of the federated bargaining organizations as seen by 16 cooperative managers, Midwestern United States, 1969

Goal	Responses
	<i>Number</i>
Increase producer returns	13
Greater efficiency	6
Reduce intermarket cooperative competition	6
Align prices among markets	4
Stabilize milk markets	3
Exercise legislative influence	3
Improve Federal orders	2
Improve information	2
Increase advertising	1
Ensure adequate milk supply	1

Source: Survey of bargaining developments in midwestern fluid milk markets, Dept. Agr. Econ., Purdue Univ., 1969.

challenged cooperative leadership to do something about low farm incomes and declining farm numbers. This challenge manifested itself in NFO milk-holding actions and in instances of attempts to elect NFO members and their actual election to cooperative boards of directors.

Goals of the Federations

As shown above, low incomes, technological changes, declining production, and the NFO provided the initial incentives for federation activity in the dairy industry. These incentives are reflected in the management goals of these organizations. Thirteen of the 16 cooperative managers interviewed listed increasing producer returns as their federation's prime objective (table 3). Increased efficiency and reducing intermarket milk movement were the next most frequently mentioned goals. These goals were also reflected in manager replies to a question asking them to rate various cooperative goals on a -5 to +5 point attitude scale (table 4). The -5 to +5 ranking scale allowed the manager to express various degrees of disagreement or agreement with each goal. An attitude score of +5 indicated strong agreement, -5 strong disagreement, and 0 indicated neutrality or no opinion.

Table 4 indicates mean manager ranking and standard deviation of goals specified by the

researcher. The high ranking and low variance of factors related to improved producer returns are apparent throughout. Factors receiving the lowest rank were either in highly controversial areas, such as the role of federations in legislative action, or in areas considered to be the domain of the local cooperatives, such as the operation of manufacturing facilities.

Federation Activities

The activities of midwestern federated cooperatives and local cooperative members which carry out federation policies can be categorized into five groups—pricing, testifying, lobbying, promoting, and coordinating.

A major activity of Associated Dairymen and Great Lakes-Southern has been that of coordinating cooperative activity to bargain with handlers for higher milk prices. Phrased differently, this function involves coordinating activities so that members could price milk in accordance with the cooperatives' goal of increasing producer returns. The specific federation activities aimed at increasing member bargaining power included obtaining better price alignment among markets and maintaining the standby pool. Detailed analysis of cooperative bargaining strategies is discussed later in this report.

A second major activity of cooperative federations has been that of testifying in Federal milk marketing order hearings. Whereas

Table 4.—Goals of the federated bargaining organizations as determined in a ranking scale by 15 cooperative managers, 1969

Specified goal	Mean score	Standard deviation
Negotiate price giving producers highest return over a period of years	4.8	.6
Maintain equal prices for competitive handlers . .	4.7	.6
Encourage cooperative mergers	3.9	1.7
Represent cooperatives at Federal order hearings	3.9	1.9
Align prices to reduce milk movements	3.8	1.2
Reduce intermarket cooperative competition . .	3.7	1.7
Prevent surplus milk movements from undermining prices	3.5	2.1
Operate standby pooling facilities	3.3	2.8
Sponsor advertising programs	3.0	2.5
Operate surplus-manufacturing facilities	2.9	2.5
Maintain legislative influence of milk producer . .	2.9	2.8
Establish regional full-supply contracts with handlers	2.4	2.9

Source: Survey of bargaining developments in midwestern fluid milk markets, Dept. Agr. Econ., Purdue Univ., 1969.

prior to the formation of federations, cooperatives sometimes presented conflicting testimony in hearings, the federations have hammered out their differences and presented a united front for producers in these hearings. Testimony has been used effectively by cooperatives in removing supply-demand adjusters from the orders in several markets, in obtaining class I pricing of skim milk used in imitation-milk products, in improving price alignment among markets, and in obtaining order consolidation.

Associated Dairymen and Great Lakes-Southern have regularly had the assistance of several land-grant university economists and Farmer Cooperative Service personnel as advisors. These economists discuss, advise on, and aid with problems such as the feasibility of mergers and standby pooling arrangements, desirability of advertising and promotion, and analysis of dairy industry-oriented government programs.

As a third activity, federations and their member cooperatives have placed new emphasis on legislative and executive influence, or lobby activities. Members have been actively encouraged to know, inform, and support their congressmen at both State and Federal levels.

This activity has, in part, been an attempt to substitute dollar and voice support for decreasing milk producer numbers. In many cases, it has involved a plan of action designed to enact cooperative programs into the legislative framework. For example, legislative activity was undertaken to establish and subsequently amend the class I base plan. The aim was to obtain an acceptable Government program that would get the supply and demand for milk into greater balance and more equitably distribute proceeds. In the long run, these programs may replace voluntary and sometimes less effective cooperative programs. Cooperative efforts to obtain additional import restrictions on dairy products are other examples of attempts to enact cooperative programs through legislation. In certain cases, cooperatives, in their efforts, have apparently tended to bypass traditional producer lobby groups. In other cases, cooperatives' efforts can be looked on as a direct complement to the lobbyists' programs.

A fourth major federation activity has been to promote the use of dairy products by encouraging cooperatives to underwrite for all their members increased advertising and support for product development research. This

activity was first reflected in substantially increased contributions by federations to the American Dairy Association (ADA), whose budget increased from \$7 million in 1960 to \$15 million in 1970.¹⁴ This activity was also reflected in the formation of DRINC, Dairy Research, Inc., and of United Dairy Industry Association, as well as the passage of State laws enabling uniform producer checkoffs for advertising and product development. In November 1970, a Federal law was passed enabling the establishment of milk promotion and research programs within the Federal milk marketing order system. This increased promotional and research activity was not a completely spontaneous development. It was given substantial impetus by both the threat posed by imitation-milk products and the decline in per capita milk consumption.

As a fifth activity, federations provided contact for and overt encouragement of mergers and consolidations among producer groups in the central United States. As these

mergers have occurred, the resulting regional cooperatives have taken over substantial portions of federation functions. This is particularly true for Associated Dairymen; two large regional cooperatives and a separate corporation to operate the standby pool have been created to encompass most of the federation membership and many of its activities.

The Regional Cooperatives

Recent and current mergers among cooperatives in the dairy industry are different from the single-market mergers of the 1950's and early 1960's. Since 1967, mergers have been primarily multimarket.

The magnitude of the movement is indicated by the fact that from 1967 to 1970, over 170 local cooperatives and 70,000 producers of 26 billion pounds of milk annually were combined into four large multimarket regional cooperatives located in the central United States (table 5 and fig. 2).

The largest of these regional cooperatives is Associated Milk Producers, Inc. (AMPI). AMPI was formed in 1969 from a consolidation of 14

¹⁴ Tucker, G. C., and D. R. Davidson. *Dairy Cooperatives*. Farm. Coop. Serv. Bul. Reprint 6, p. 20, from Farm. Coop. Serv. Bul. 1, U.S. Dept. Agr., Wash., D.C., 1965; *Dairy Record*, Vol. 70, No. 21, Apr. 1970, p. 5.

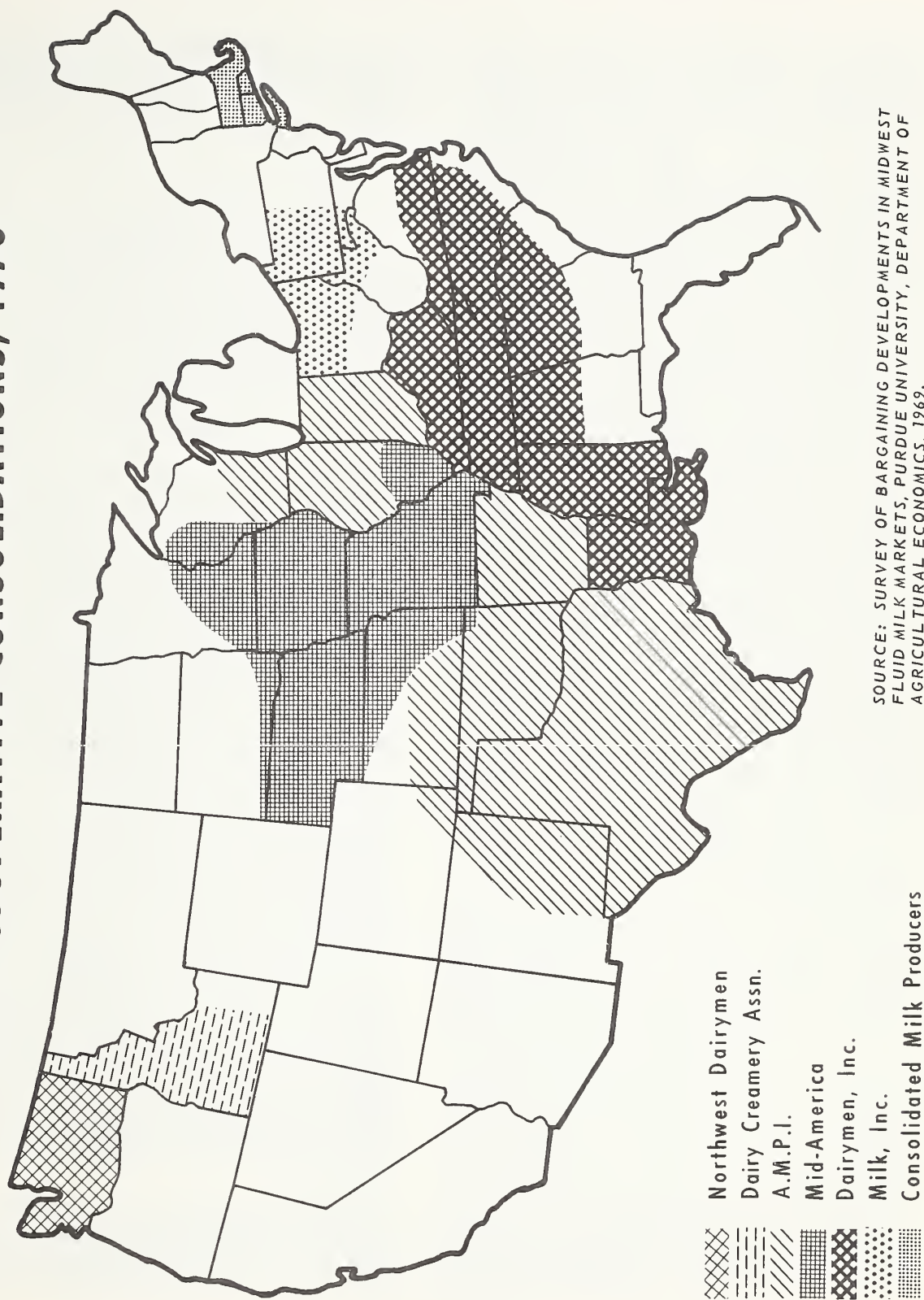
Table 5.—Principal milk cooperative mergers by year organized, approximate number merged, number of producers, and size, United States, 1970¹

Cooperative	Year organized	Cooperatives merged	Producers	Annual volume
		Number		Billion pounds
Associated Milk Producers, Inc.	1969	111	31,000	10.8
Mid-America Dairymen, Inc.	1968	31	23,000	7.5
Dairymen, Inc.	1968	24	9,800	5.2
Milk, Inc.	1969	4	8,000	2.5
Consolidated Milk Producers	1967	3	2,000	1.1
Dairy Creamery Association	1968	3	1,000	.5

¹ Several other cooperatives in the United States were involved in 1 or more mergers during the 1960's. They are not listed here because a new regional organization was not created as a result. A notable example is one of the Nation's largest dairy cooperatives, located in the Midwest, which was involved in several acquisitions and mergers during the 1960's.

Source: Survey of bargaining developments in midwestern fluid milk markets, Dept. Agr. Econ., Purdue Univ., 1969; A. J. Ortego, Jr., Current and Prospective Programs and Policies in the Future for the United States, paper presented at No. Central Regional-70, Chicago, Ill., Sept. 14-15, 1970, p. 37.

**FIGURE 2.--REGIONAL COOPERATIVES FORMED BY
LOCAL COOPERATIVE CONSOLIDATIONS, 1970**



SOURCE: SURVEY OF BARGAINING DEVELOPMENTS IN MIDWEST
FLUID MILK MARKETS, PURDUE UNIVERSITY, DEPARTMENT OF
AGRICULTURAL ECONOMICS, 1969.

cooperatives, predominantly located in the Chicago milk market area, and Milk Producers, Inc. (MPI). MPI was formed in 1967 by a consolidation of six producer organizations in Kansas, Oklahoma, Texas, and Arkansas. During the first year of operation, eight additional cooperatives in the Southwest merged with it. Prior to the formation of AMPI in 1969, MPI acquired cooperatives as far north as South Dakota and Minnesota. MPI leaders provided a large part of the impetus for much of the merger activity in the dairy industry throughout the United States.

A major additional merger involving AMPI since its formation in 1969 was the acquisition of a large federated cooperative as a wholly owned subsidiary and some of its federated locals, as well as other local cooperatives scattered throughout AMPI territory. Today, AMPI supplies over 75 percent of the milk to such major fluid milk markets as Chicago, Madison, Indianapolis, Houston, Dallas, San Antonio, Memphis, and Oklahoma City.

The second largest milk cooperative merger formed Mid-America Dairymen, Inc., in 1968 from 31 cooperatives serving milk markets in Iowa, Kansas, Missouri, and Illinois. Subsequently, two major cooperatives and several smaller cooperatives serving the Omaha and Minneapolis-St. Paul market areas were added.

Substantial overlapping of territory exists between AMPI and Mid-America, much of it in Iowa and Minnesota.

Dairymen, Inc., whose membership includes cooperatives in both the central and southeastern United States, was the third largest regional formed by merger during the 1960's. The original Dairymen, Inc., consolidated eight cooperatives with 6,000 producer-members. In total, it has combined about 24 cooperatives—eight from its formation and 16 during its first 3 years of operation. In the process, Dairymen, Inc., has more than doubled its original volume.

The last regional cooperative to be formed in the central United States during the 1960's was Milk, Inc., in 1969, combining four cooperatives serving the Toledo, Cleveland, Akron, and Pittsburgh market area. Cooperative overlap in

the procurement and distribution area for 8,000 producer-members of four cooperatives provided a prime incentive for this consolidation.

Incentives for Mergers

Discussion among federated cooperatives led them to more fully appreciate their common problems, including low producer returns, decreasing producer numbers, declining milk consumption, overlapping procurement areas, disruptive milk movements, and buyers with superior bargaining position. Federation activity led to the realization that truly coordinated cooperative activity was needed to solve many of these problems and that they could not be dealt with in a loosely knit federation composed of many smaller cooperatives. That is, there was a tendency in the federations for agreements among a relatively large number of smaller, single-market cooperatives to break down when a plan of action was to be implemented. A merged multimarket cooperative could thus strike better bargaining balance against a multimarket processor who has alternative sources of bulk and packaged milk as well as more overall resources.

The tendency of federated cooperative decisions to break down in a particular bargaining situation was partly due to the fact that the single-market cooperative is greatly influenced by local conditions. In addition, milk processors as buyers of raw milk were frequently in a position to play one cooperative off against another in terms of alternative sources of milk supply. A smaller number of large cooperatives were not as subject to either local market pressure or processor milk purchasing strategies. Merger activity thus resulted, in large part, from a search for greater market stability—a way to handle the fear that the federation might fall apart when difficult marketing problems were confronted.

Merged organizations also resulted from a realization that only by merger could a cooperative overcome problems relating to equity and operational efficiency. Problems

involving equitable distribution of producer returns are created when price adjustments and intercooperative milk movements are undertaken. The multimarket dimension of merged cooperatives allowed for a redistribution of returns when necessary for more equitable distribution and greater market stability. In addition, many of the problems which dairy cooperatives face relate to overlapping producer procurement areas and excess or inefficient plant capacity. Federations could do little to overcome these problems, whereas a merged multimarket organization could, over time, provide more effective solutions.

Regional Cooperative Organization

Consolidation of local cooperatives into a regional structure required considerable organizational change to make the new cooperative viable. While some differences exist in the detail of regional cooperative organization and control, a relatively uniform basic pattern of organization has developed in each of the four midwestern regional cooperatives studied.¹⁵

When the regionals were initially established, there was a strong tendency to simply organize into divisions, with the divisions being the same as the component cooperatives. Prior to the merger, the board of directors for each component cooperative was a decisionmaking entity with the power to make cooperative policy and hire a manager. Size constraints made it possible for all of the local cooperative directors to become directors for the regional. As a result, the local cooperative boards were changed to have advisory board status.

These advisory boards were retained for two main reasons: initially as strategy in consummating the merger and later as channels for communication. Some board members of local cooperatives were opposed to the merger largely because they would lose their director seat and their chance of being elected to the

regional board of directors was considered slim. Thus, an advisory or division board was created, enabling these directors to retain some status in the regional cooperatives as well as in the local community.

Further, the advisory boards were also created to act as sounding boards for regional and division management as well as for members of the regionals' board of directors. This role provides for communication channels from the membership to the directors and management as well as from directors and management to the membership. When purely local issues arise, the advisory boards may be asked to make decisions. For broader issues, advisory boards have frequently provided leadership in obtaining grassroots support for cooperative programs. However, the longrun ability of the regional cooperative to rely on advisory boards for communication and leadership functions remains in doubt. Creation and use of the advisory board may merely be a transition to more centralized control and sophisticated methods of communication.

The regional cooperative board members were usually elected from among members of the advisory board either by delegates representing a given number of producers or by direct producer vote. The regional board, of course, functions as the policy decisionmaking body for the entire cooperative.

Sources for managers selected by the regional board vary among the regionals. In two of the four regional cooperatives, management was selected from within the component cooperatives. In the other two, a new top management team was selected partly from the outside. In forming this team, the two regionals selected their top management from among the cooperatives' legal counsellors.

Where division managers were not promoted to top management positions in the regional, they generally remained as managers at the local level. In addition to maintaining their local cooperative functions, these managers were frequently assigned additional functions which cut across division lines. These duties frequently tended to be more functionally oriented—related to transportation, manu-

¹⁵ A detailed case study analyzing postmerger problems of organizational change and control is being undertaken as a second phase in this study and will be published in a separate report.

facturing, member relations, and so forth—than geographically or division oriented.

Financial Structure of Regional Cooperatives

The financial structure of the regional cooperatives varies considerably. In most cases, the equities, assets, and obligations of the local component cooperatives were acquired at book value. Some unneeded assets were subsequently written off in some of the regionals. These write-offs, of course, became a cost to the regional cooperative in its first years of operation.

Working capital was obtained for the regional largely by (1) a continuation of capital checkoffs, (2) margins, (3) term loans from the Bank for Cooperatives, and (4) depreciation charges that were retained.

For equity capital, regionals have generally used per unit capital of 6 to 10 cents per hundredweight in revolving equity accounts. The regional cooperatives are making the length of the revolving account uniform for all of the cooperative components. They have also been shortening the account so that each member cooperative is operating on ownership capital provided largely by current members who are receiving the benefits of cooperative activities. Revolving of ownership accounts every 5 years is the goal of at least two of the regional cooperatives.

Activities of Regional Cooperatives

It is, of course, difficult to separate the activities of the merged regional organizations from those discussed previously for the federations. Presumably, federation policy is developed as a consensus of the opinions and policies of the federation's members. It is, in turn, the member cooperatives' responsibility to carry out established federation policies. Thus, much of the work involved must necessarily be done at the local level. In a real sense, the strength of the federation is determined by the ability of the member cooperatives to carry out federation activities and policies. To the extent that federation

activities and policies differ from those of the member cooperatives prior to merger, the activities of the members need to be changed.

The emphasis of the federations on bargaining and the transfer of some federation bargaining functions to the regional members has, of course, made bargaining an important thrust for the regional cooperatives. Regional cooperatives have strengthened the federations' bargaining position because the regionals' control over milk supplies for a large number of markets more completely limits the alternative sources of milk available to fluid milk processors. In addition, operating on a multimarket basis has made regional cooperatives less subject to local market conditions than were single-market cooperatives.

Regional cooperatives' control of milk supplies in a number of markets has made these cooperatives relatively more concerned with the allocation of milk supplies to their highest return alternative. Some regionals serve both surplus and deficit markets. For these regionals, an important aspect of maximizing the producer's return has been obtaining as high a fluid use as possible for the regional cooperative. In other words, maximization of class I use for the regional has become the prime objective, rather than maximization of class I use for any local market.

An activity which has been receiving increasing attention for some time is the control of milk production and the equitable allocation of production and prices among the cooperatives' divisions. Development of producer base plans and adjustment of historical price differentials among markets is symptomatic of this change in cooperative activity.

Regional cooperatives have been reconsidering their divisional structure and moving toward more functional organization. As the regionals grow in size, they can both operate more autonomously and fulfill many of the federations' functions, largely because of their multimarket scope and their tendency to absorb closely related or interdependent cooperatives. Thus, through time and the evolution of cooperatives such as Mid-America and AMPI, there has developed less need for

the Associated Dairymen federation, for example, because many of its functions have been absorbed by the regionals. Over time, the regionals will probably become the focus of coordination, Federal order hearing testimony, lobby activities, promotion, and efforts to obtain further consolidation. This trend of moving federation functions to the regionals has progressed further for Associated Dairymen than for Great Lakes-Southern.

Thus, regional cooperatives are apparently no longer simply procurement, allocation, and surplus milk processing agents for the farmer. Yet these functions continue to play a vital part in cooperative bargaining efforts. Procurement and allocation functions provide initial cooperative control over producers' milk

supplies. Without this control, cooperatives would not be as effective in bargaining. Surplus processing is also an important aspect of the cooperatives' bargaining strategy. With bargaining and maximizing class I use as primary cooperative objectives, however, surplus processing facilities are operated only when needed to dispose of surplus milk supplies or effectuate the cooperatives' bargaining goals. Thus, one of the largest and most successful regional cooperatives has maintained a large butter-powder processing facility in a purely reserve capacity. This facility has not been operated for 3 years, but may be called on at a moment's notice to bring about cooperative bargaining demands or handle milk surpluses.

The Bargaining Process

Bargaining involves efforts to directly influence the price of a product or other terms of sale through the use of market power. Bargaining gains do not come automatically with the organization of a bargaining group. If the group is large enough—that is, if it controls a large proportion of the supply available to processors—it can raise prices by controlling the flow of products into the market.

The uniqueness of the cooperative as a bargaining agent for producers is not always recognized. It provides a ready mechanism for coordination of member production and marketing activities. For commodities whose cooperatives are organized regionally or nationally, federations of cooperatives can be formed to control alternative sources of supply. For certain commodities, such as milk, fruits, and vegetables, a secondary or alternative market exists where surplus production can be diverted and separated from the primary market.

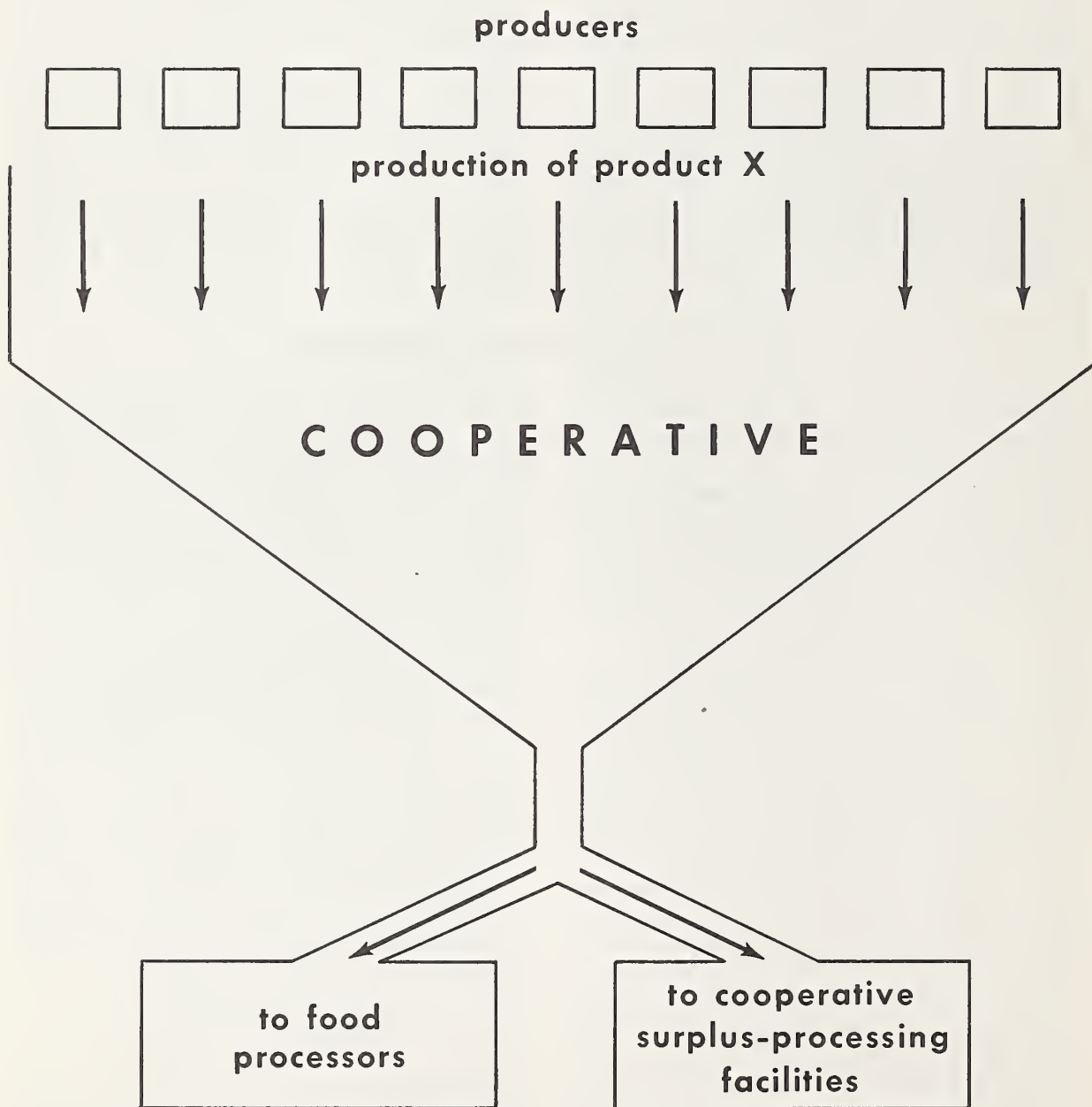
For example, milk which is not needed for bottling can be diverted into the production of manufactured products. The cooperative acts as a funnel through which products flow (fig. 3). Market control can be accomplished by coordination of the production and marketing activities of producers who belong

to the cooperative. This coordination alone improves the cooperative's bargaining position with milk processors. The bargaining position is, however, particularly enhanced when coordination is accompanied by cooperative manufacturing facilities to which surplus milk supplies can be diverted. Although the cooperative receives a lower price for the diverted milk supplies, this lower price is more than offset by the higher returns from the primary bottling market. These higher returns result from the fact that consumers decrease consumption of fluid milk a relatively small amount when the price is raised—the demand for fluid milk is inelastic. On the other hand, shifting surplus supplies into the more elastic manufacturing market results in little change in price. This relationship could change, however, if the price of milk used for bottling was raised excessively or the Federal Government became unwilling to support the price of milk.

Bargaining Tools

Before the mid-1950's, processors of fluid milk operating in Federal order markets generally considered the Federal order class I price to be the maximum and minimum price

FIGURE 3.--THE COOPERATIVE FUNNEL



they paid for milk. This held true except in markets where bulk tank premiums or other service charges for cooperative milk handling had become established. Premiums over Federal order prices did not exist for other than cooperative or producer services rendered. The Agricultural Marketing Agreement Act of 1937 clearly specified that order prices were to be minimums. However, there was and is today a degree of disagreement among cooperatives on the relative merit of seeking price increases within the Federal milk order framework as opposed to premium negotiation over the Federal order class I price.

The first midwestern cooperative to negotiate a substantial class I premium over Federal order prices was the Michigan Milk Producers Association (MMPA). With headquarters in Detroit, it had considerable experience negotiating prices in Michigan markets before Federal orders existed. In April 1956, MMPA established a 51.4-cent premium in the Detroit market. In May 1956, the size of the premium was reduced by a Federal order price increase, but in September 1956, it was increased to about 63 cents and remained at the 50- to 70-cent level through January 1960. While cooperatives in other markets attempted to negotiate price premiums, MMPA was undoubtedly the most successful, with premiums ranging to over \$1 per cwt., even before the formation of the Great Lakes Federation.

Several problems developed when premiums were negotiated on an individual market basis. In some cases, processors refused to pay the premiums and sought alternative sources of milk. This situation was particularly prevalent on the fringes of the Detroit market, where as much as 10 million pounds of milk per month during 1967-68 were being brought into the market from other States. The effect of these milk movements from Illinois and Wisconsin markets was to dilute Michigan blend prices, place competitive pressure on handlers not receiving milk from outside, and hold down both producer and processor milk prices. Movements of packaged milk into Michigan from lower priced markets to both the south and west had a similar price-depressing effect.

Compared with individual cooperatives, federations and multimarket regional cooperatives were able to use bargaining tools more effectively to control intermarket milk movements. Three of these tools were particularly significant—price alignment, the standby pool, and full-supply arrangements.

Price Alignment

Whenever price differences among markets are greater than the cost of moving milk, there is an incentive for milk to move. This incentive can be removed by aligning or adjusting prices so that their differences are identical to those in transportation costs. Once prices are aligned, the general price level among markets can be raised if all cooperatives raise prices at the same time.

Price alignment was a major thrust of initial federation activity in bargaining. Variable premiums were negotiated among federation markets to better align prices and remove the incentive for intermarket movement of unwanted and unneeded quantities of milk. Where direct price alignment could not be accomplished, milk was sold by cooperatives on the basis of delivered pricing, resulting in indirect price alignment.

Price alignment could be more directly, rapidly, and completely accomplished in the merged regional cooperatives. Local cooperatives serving single markets frequently have a self-interest bias in not disturbing any advantage which these cooperatives or their handlers might have obtained because of poor price alignment. The regional cooperative is not nearly as subject to such local self-interest pressures although it may be subject to regional pressures.

Standby Pool

Price alignment has worked well for those cooperatives involved actively in the midwestern federations. There has been and remains a large supply of grade A milk in Minnesota and Wisconsin with either no fluid use outlets, or only a very small one. Thus,

there is substantial incentive for these cooperatives to supply handlers in other markets with milk any time they can secure a price greater than the manufacturing price. If cooperatives were going to effectively bargain with handlers, it was necessary that they bring this milk supply under their control.

Cooperatives to the south with deficit milk supplies had an additional reason for supporting the formation of a standby or reserve supply of milk. The general manager of Dairymen, Inc., stated that the motivation for it to contribute to and contract with the standby pool

... was and is still to maintain a reserve supply continually available to Dairymen, Inc. for its high class I utilization markets, rather than have Dairymen, Inc. develop local supplies that would be needed for class I purposes only occasionally.¹⁶

While reserve milk supplies are important to southern markets, Manchester notes:

It should be clearly understood that the primary objective of the standby pool is to improve the bargaining position of cooperatives in the participating markets. The chief benefit to dairymen and their cooperative comes from the drying up of milk which might otherwise be available to handlers in the regulated markets. . . . The provision of reserve supplies of milk to fluid milk markets is a secondary objective.¹⁷

The standby pool operates on the principle of a relatively small per cwt. assessment on the class I use of the cooperative members of Associated Dairymen and Great Lakes Federation. This assessment on about 1.5 billion pounds per month of grade A supplies is

distributed among 11 plants in Minnesota and Wisconsin who commit about 80 million pounds of milk per month to the standby pool. In return for this distribution of the assessment, the 11 plants turn over the milk sales function to sales agents for the standby pool. These agents have developed preannounced and uniform pricing procedures for all buyers.¹⁸

At the inception of the pool, members of Associated Dairymen contributed 2 cents per cwt. on their class I sales into the standby pool. During the first 17 months of operation, the amount paid to the reserve plants averaged 23 cents per cwt. In May 1969, when Great Lakes Federation cooperatives joined the standby pool, the larger volume of milk made it possible to reduce the assessment to 1.25 cents per cwt.

From the standpoint of the contributing members, the main benefit of the pool is that it gives them greater market stability. This stability results from: (1) their control of a substantial volume of milk which, without the pool, could move into their market and undermine the premium price structure; and (2) their maintenance of a price or production control structure or both in local markets, which minimizes surplus market supplies but assures buyers of adequate supplies from the standby pool.

As a result of distributions from the pool, its members have been able to share more equitably in the higher price structure existing in fluid milk markets south of Minnesota and Wisconsin. In addition, the pool has maintained a higher price structure in the area where these 11 plants are located. Tucker estimated that if the standby pool milk had been included in the Chicago Regional Order of May 1969, the Chicago blend price would have been reduced 5 to 6 cents per cwt. For Minneapolis-St. Paul, the reduction in blend price would have been 12 to 13 cents per cwt.¹⁹ Formation of the

¹⁶ Alagia, D. Paul, Jr. The Charter for and Expected Gains Through Consolidation. 1969 *Proceedings Twenty-fourth Annual Midwest Milk Marketing Conference*. Lexington, Ky., Apr. 1969.

¹⁷ Manchester, A. C. Pricing Milk and Dairy Products. Paper presented at No. Central Regional-70, Chicago, Ill., Sept. 14-15, 1970, p. 27.

¹⁸ Cook, H. L. The Standby Pool—A New Strategic Bargaining Device. *Amer. Jour. Agr. Econ.*, Feb. 1970, pp. 103-108. Tucker, G. C. Standby Pool as a Supply Management Tool. *Amer. Coop.* 1969, Wash., D.C., pp. 158-59.

¹⁹ Tucker. *Ibid.*, pp. 159-60.

pool and its effective operation have also probably raised the level of the price for manufacturing milk supplies in Minnesota and Wisconsin because of the milk price competition created between cooperatives in and outside the pool.

Full-Supply Arrangements

A third bargaining tool, which is closely related to the standby pool concept, is the increasing emphasis which the cooperative is placing on full-supply arrangements with handlers. Cooperatives have come to realize that if they are going to obtain premiums from handlers, they must be able to supply handlers' full milk needs at all times. In addition, they realize that they cannot rely on handlers to dispose of surplus milk supplies and yet continue to demand premiums over Federal order prices.

The need for full-supply arrangements has come from both the cooperative and handler side of the market. Large handlers in the range of 10 to 20 million pounds per month frequently preferred to turn the entire procurement operation over to the cooperative. Management in these plants considered full-supply arrangements virtually essential for effective plant and marketing operations. Thus, the full-supply concept became a much needed reciprocal bargaining tool which aids handlers in their day-to-day procurement operations and at the same time aids the cooperatives in their bargaining efforts.

Regional cooperatives have a comparative advantage in the full-supply area. Their operation across markets gives them direct access to the milk supplies of other markets within the regional. It also provides an incentive to maximize class I use by moving milk to wherever it is needed in the regional cooperative. While the regional incurs increased transport costs in moving such milk, the advantages of full-supply for bargaining as well as maximum class I use appear to substantially outweigh these higher costs. In addition, industry costs involved in transporting milk may have been reduced by regional

cooperatives relative to the levels existing before the advent of the regionals. Before regionals were formed, milk was frequently shipped in small trucks and it was not unusual for competitive cross-market raw milk movements to occur in certain market situations. Thus, hypothetically, a Memphis cooperative could have been supplying handlers in Little Rock, while a Little Rock cooperative was supplying Memphis handlers. A merger provides the potential for removing such inefficient competitive market conditions.

Using a broad definition of full-supply arrangements, it was found that cooperatives studied sold approximately 40 percent of their milk to handlers having no other source of supply. The survey of markets for this report indicated that written full-supply contracts were not extensively used by the cooperatives studied. A few such contracts existed for plant operations of very large volume. While cooperative management tended to favor the establishment of formal supply arrangements, some managers were concerned about the legal implications. Verbal and implicit full-supply arrangements existed for several cooperatives which supplied the full milk needs of particular handlers.

The most common alternative sources of supply for a handler were independent producers and other cooperatives located in the area served by the handler. Where the other cooperative was a member of one of the federations, the federation, in a sense, became the supplier of the handler's full milk needs, and few bargaining problems resulted. Where other cooperatives or independent producers supplied a significant proportion of a large handler's volume, increased difficulty was frequently encountered in the bargaining process. The problem of independent producers was particularly pronounced in the Ohio and Pennsylvania market areas.

Theoretically, a cost advantage exists for handlers who deal directly with independent producers. These handlers, of course, must pay a producer blend price which is competitive with the blend price paid by the cooperative. Suppose, for example, the Federal order class I

price was \$6.50 per cwt. and the class II price \$3.40 per cwt. With a 70-percent class I use, the Federal order blend price would be \$5.57 per cwt. Suppose the cooperative imposes a premium of \$.50 per cwt. on its class I milk. This makes the cooperative's blend price \$5.92 per cwt. If cooperative costs are \$.20 per cwt., the cooperative's producer pay price is \$5.72. If his fluid use is over 70 percent, it would, according to these simplified assumptions, profit the handler to do business directly with producers. However, this reasoning oversimplifies the problem. First, the handler would have to perform fieldwork and provide procurement and other services of the cooperative for \$.20 per cwt. or less. Second, seasonality of production requires that the handler carry extra producers to meet his needs during the fall, when production is lower. This seasonality factor alone can mean that gains from not paying premiums during the fall months are substantially offset by the higher production and lower fluid use in the spring months. Third, experience indicates that the handler must pay a premium of 5-10 cents per cwt. over the cooperative price to attract and retain its own supplies from producers.

A similar theory, of course, applies to the cooperative which is not a member of a federation and serves handlers in the same area as the federated cooperatives. To the extent that it had lower costs and a higher fluid use, this nonmember cooperative could pay its producers a higher price than the federated cooperative members could. In some cases, such a cooperative could have acquired its fluid outlets by cutting prices to handlers below the superpool price established by the federations. Such practices have been particularly common in Iowa, but also have been known to exist in Texas.

Federations and large regional cooperatives such as AMPI could contract with regional and national dairy companies to serve the full milk needs of all the handler's plants in the cooperative's supply area. The handlers interviewed varied widely in their reactions to this suggestion but were generally opposed. Cooperative managers interviewed were generally

favorable to this suggestion but also varied considerably in their opinion.²⁰ It seems reasonable, however, to expect that over time, the full supply arrangement is likely to increasingly expand from being limited to individual plants to supplying the needs of national or regional dairy processors over the regional cooperative's entire procurement and sales area.

Bargaining Dynamics

As noted previously, bargaining gains for producers do not come automatically with the establishment of a bargaining organization but only through effective use of cooperative bargaining tools. Relatively little is known about strategies used by buyers and sellers in an actual bargaining situation. Every situation varies; thus, generalizations are difficult. Yet some description of the dynamic aspects of bargaining would seem appropriate.

The initial step in the bargaining process is the establishment of a price objective by members of the federated bargaining group (or by the regional if unilateral action is to be taken). In federation action, this decision is crucial because if the bargaining effort is to be successful, each of the member cooperatives must be willing and able to stand by the federation decision. In many cases, the establishment of a price objective is also a very complex decision. Federations must consider price alignment within the federation and with prices in markets outside, production costs, and general and local market conditions.

Recommendations with respect to premiums have generally been made by a pricing committee in each federated organization. Cooperative management, with a wealth of experience on handler reaction to pricing proposals, is generally heavily represented on

²⁰ Using a scaling device of -5 to +5, handler ratings averaged -0.6, with a standard deviation of 3.7. Cooperative ratings averaged +2.4, with a standard deviation of 2.9 (see table 4.)

these committees. The committee recommendations are submitted to the federation's board for action. Approval of federation action may or may not be sought from the directors of the member cooperatives.

The period of greatest stress in the bargaining process is when the organization's pricing decisions (demands) are presented to the handlers. In the milk industry, there has generally been relatively little bargaining in the sense of both producers and handlers sitting down at the table and "hammering out" an agreement. In certain markets, it has been cooperative policy to call the handlers together and explain the pricing decision, including a basis for action. In other markets, the cooperative has met with handlers individually. In each of these situations, handlers were generally given an opportunity to react to and discuss cooperative decisions. While there may be some situations where such discussions have resulted in a change in cooperative strategy, the cooperatives which are members of the federation have generally already committed themselves to a course of action regardless of handler reaction.

The commitment to a particular course of action, combined with the desire of the cooperative to place itself in the most advantageous bargaining position, has led some cooperatives to choose what some handlers referred to as the "telegram approach" to bargaining. In this approach, each handler is sent a telegram indicating what the price of milk will be during the next month. In many cases, this announcement is made the evening of the last day of the month and is effective the next day. This short notice to the handler makes it virtually impossible for him to line up alternative sources of milk supply. As a result, his resistance to the price increase tends to be reduced.

Regardless of the method of announcing a price increase, the handler has the option of either paying the established price or receiving no milk deliveries from the cooperative. In the event he decides not to pay the premium, he can either shut down the plant or seek alternative sources of milk.

In reality, refusing to pay and shutting down the plant is not a very feasible alternative for the handler because of the loss of both sales and consumer goodwill that would result if he were unable to supply his wholesale and retail customers with milk.

In the early years of bargaining activity, handlers sometimes resorted to finding alternative sources of milk supply. Sixty percent of the cooperatives studied indicated that the handlers they supply had brought in outside milk supplies during the period when the first premiums were established. Over half these shipments were in packaged form.

An extensive study by Dobson²¹ of intermarket milk movements indicates both cooperative and handler reaction to bargaining for premiums over Federal order prices. Dobson found that intermarket bulk milk shipments increased from 40.9 million pounds in October 1963 to 73.9 million pounds in October 1966. In October 1967, intermarket bulk shipments declined to 63.1 million pounds.²² Dobson attributed this decline in large part to cooperative bargaining activities such as improved price alignment, increased intercooperative coordination, and the standby pool. Specifically, he states:

Changes in market organization and competition in product markets appear to be lessening the opportunities for intermarket flows of milk in response to price incentives. Increasingly cooperatives are acquiring the power to directly control raw product flows to increase milk handling efficiency and enhance their terms of sale. Those capabilities stem from control over milk supplies.²³

²¹ Dobson, W. D. *An Analysis of Alternative Price Strategy and Intermarket Competition in Federal Order Milk Marketing*. Unpublished Ph.D. thesis, Purdue Univ., Aug. 1969, p. 231. See also, W. D. Dobson and E. M. Babb, *op. cit.*, pp. 5-7.

²² Dobson, *Analysis of Alternative Price Strategy*, *op. cit.*

²³ *Ibid.*, p. 189.

Reacting to increased cooperative control over bulk milk shipments, processors have substantially increased intermarket shipment of packaged milk, over which the cooperatives have little or no control. These shipments increased from 6.5 million pounds in October 1963 to 22.5 million pounds in October 1967; 63 percent of these shipments were intracompany transfers of regional or national dairy firms.²⁴ This high proportion of intracompany transfers is attributable both to increasing specialization of product processing and to measures taken by these processors to avoid paying class I price premiums on raw milk produced in particular local markets.

Increased packaged milk shipments from the Chicago and Milwaukee markets into Michigan during 1960-70 provide possible evidence of handlers' efforts to avoid paying cooperative premiums. In addition, intermarket shipments of bulk milk from cooperatives in Minnesota, Iowa, or Wisconsin served as a second alternative source of supply for Michigan processors. Acquiring bulk milk was, however, not very satisfactory for the large handler because of the virtual impossibility of acquiring and transporting a sufficient volume. If the federation member cooperative could detect that outside sources of milk were being received by a handler, the cooperative would sometimes refuse to supply him with any milk, even at the premium price, until the outside purchases ceased. Over time, these alternative sources of bulk milk have been reduced by the increased number of cooperatives being absorbed into either the federated or merged group.

As indicated previously, a theoretical price advantage exists as an inducement for processors to either attempt to attract nonmember sources of supply or transfer bulk or packaged milk from other plants in the same company. However, when transportation costs and other costs associated with less than full cooperative supply are considered, most handlers found these evasive procurement practices fully as costly as full cooperative supply, including the premiums. The inducement for handlers to

resist the premiums is, therefore, not as great as one might expect, particularly when all handlers are paying the premium and, therefore, have uniform raw product costs.

Probably the most difficult contemporary problem in the bargaining process in the area studied is that of agreeing on and effecting a change in the premium for all cooperatives in the central United States at the same time. When such a uniform change can be agreed on and accomplished, both handler and cooperative stress is minimized. Coordination of action between Great Lakes and Associated Dairymen cooperatives is required to accomplish such a change. While this coordination has been evident in certain cases, it has tended to come after, rather than before, initial price-increasing action by either one federation or the other. The result has frequently been a period of price instability—particularly in markets near the surplus-laden Chicago market.

Over time, the need for uniform cooperative action among markets increases. An example of this increasing need is provided by the Illinois-Indiana-Ohio-Kentucky market complex. Approximately 50 percent of the fluid milk needs in the Indianapolis market come from Chicago area producers.²⁵ In addition, processing plants located in Chicago package and distribute milk in the Indianapolis market. Indianapolis processors, in turn, distribute milk in overlapping Ohio and Louisville market areas. Thus, price alignment and uniform price movement become critical. If the price is raised in Ohio or Louisville markets without a rise in the Indianapolis market, the competitive position of Ohio and Louisville processors is adversely affected relative to Indianapolis processors. But the Indianapolis price must be aligned with the Chicago price because of movements of packaged milk between the markets. Such market interrelations dictate a close working relation among regional and federated cooperatives. They also provide an important stimulus for further merger activity.

²⁴ *Ibid.*, pp. 231-2.

²⁵ This is a rough approximation and includes some northwestern Indiana producers who have traditionally been associated with the Chicago market and cooperatives.

Bargaining Effects

The interest in bargaining stems, as indicated previously, primarily from the desire of producers and their cooperatives to raise the level of milk prices. Considerable producer time and resources have been spent developing the cooperative bargaining framework which currently exists in the milk industry. It is not surprising, then, that producers and their cooperatives are interested in the size of the price increases which are attributable to their bargaining activities. It is also not surprising that the primary yardstick which producers use in evaluating the effectiveness of these activities is the price and income which they receive from milk.

Processors are obviously also interested in the effect of producer groups on milk prices and incomes. Their interest stems from the need to pay prices which are high enough to attract sufficient milk supplies. It also stems from a recognition that each price increase at the producer level directly affects processors' competitive position at the retail level. The price increase at the producer level must eventually be passed on to consumers in higher milk prices. This, in turn, has a depressing effect on milk consumption and is of interest to both producers and processors.

Effects on Producer Prices and Incomes

The effects of bargaining on producer prices and incomes are difficult to analyze. While cooperatives would, of course, like to attribute all of the price increases which have occurred to bargaining, other factors have also been important. Milk production declined nearly 8 percent from 1964 to 1970. A reduction in milk supplies would be expected to result in higher milk prices, assuming all other variables were constant. The total demand for fluid milk varied, as indicated previously, from being relatively constant to declining slightly. The demand for cheese was up while the demand

for butter was down. Inflation resulted in a 33-percent increase in the consumer price index from 1960 to 1970. A 30-percent increase in the output per cow from 1960 to 1969 at least partially offset these inflationary price increases.

With this large number of variables interacting, it becomes extremely difficult to precisely estimate the effects of cooperative bargaining activities on milk prices. The following discussion is designed to describe the alternative areas in which cooperative efforts to influence milk prices may have occurred. Any conclusions about cooperative price influences should be considered, at best, rough approximations to be interpreted in the light of the assumptions made for the estimate.²⁶

Economic Aspects of Cooperative Bargaining Effects

The total demand for milk can be divided into two primary markets. The first is that for class I sales of fluid milk products. The second is the domestic market for manufactured milk products. In this market, the Government places a floor on the price of manufacturing milk by supporting the price of manufactured dairy products.

The classified pricing system has historically been used in the pricing of milk. This system administratively segregates the market for fluid milk (class I) from that for manufacturing milk. The theoretical basis for this segregation is that the demand for fluid milk products is more inelastic than that for manufactured milk products.²⁷ As a result, it is possible to increase total producer revenue by charging a

²⁶ More precise estimate of the impact of cooperative bargaining on milk prices could be made by econometric analysis. Such an investigation is continuing at Purdue University by the author and other researchers.

²⁷ Harris, Edmond S. *Classified Pricing of Milk*. Tech. Bul. 1184, MRD-AMS, U.S. Dept. Agr., Apr. 1958, pp. 44-45.

higher price for the class I products. While estimates of the demand for fluid milk at the farm level vary, most studies would place the farm level elasticity of demand in the range of -0.1 to -0.4 .²⁸ Studies of the demand for manufactured dairy products indicate that the elasticity of demand at the farm level would range from -0.5 to -0.7 .²⁹ At the support price, the elasticity of demand for manufactured products becomes perfectly elastic.

Many of the activities of milk bargaining cooperatives during the 1960's were directed at: (1) exploiting more fully the inelastic demand for class I products by raising their price more than that of class II products; and (2) raising the level of the support price for manufacturing products. This second activity raises the class II price and more fully exploits the inelastic domestic demand for these products. It also increases willingness of the Federal Government to purchase the surplus supplies of manufactured products should the class II price reach the support level. The Federal order pricing system uses the class II price as a basis for computing the class I price. Therefore, any increases in the support price are reflected in the class I price. Cooperative attempts to increase the size of the differential between the class II and class I prices, such as the negotiation of premiums over Federal order prices or attempts to influence the size of the class I differential, may be viewed as attempts to more fully exploit the inelastic demand for class I milk. Any resulting decreases in the demand for class I milk are, of course, shifted to the class II market and the extra supplies are either sold domestically or purchased by the Government and used in its disposal programs.

Effects of these milk bargaining cooperatives to more fully exploit the elasticities of demand for class I and class II milk have been to

raise the blend price of milk to producers. Although milk prices were raised substantially during the 1960's, cooperatives have not yet fully exploited the inelastic demands associated with the two classes of milk. In fact, full exploitation may not be desirable from the standpoint of increasing producer returns in the long run, since higher prices encourage the development of more substitute products, as well as increased milk production. Such changes as higher prices, increased production, and substitute products may, in the long run, jeopardize the total bargaining effort, as well as the very existence of an inelastic demand for milk products.

The efforts of producers acting through their cooperatives to influence the prices of class I and class II milk are analyzed below in four steps: (1) premiums over Federal order prices, (2) Federal order prices and provisions, (3) support prices, and (4) producer prices and incomes.

Premiums Over Federal Order Prices

Price increases which are most directly attributable to the activities of milk bargaining cooperatives are the premiums which have been negotiated over Federal milk marketing order class I prices.³⁰ These are generally referred to as superpool premiums. Premiums of 10-25 cents per cwt. for class I milk existed in several markets from 1955 to 1960. In May and October 1960, the average class I, or superpool premiums in 13 midwestern fluid milk markets were 11 and 5 cents per cwt., respectively (table 6).

Cooperatives were largely unable to retain these premiums as milk surpluses built up during the early 1960's and as intermarket milk movements frequently tended to nullify any attempted price increases by individual cooperatives. Thus, superpool premiums virtually vanished from 1961 to 1964.

²⁸ Brandow, G. E. *Interrelations Among Demands For Farm Products and Implications for Control of Market Supply*. Penn. State Univ. Agr. Exp. Sta. Bul. 680, Aug., 1961, p. 59. A recent study by G. W. M. Bullion, *Estimation of Regional Retail Demand Elasticities for Whole Milk*, unpublished Ph.D. thesis, Purdue Univ., 1970, has tended to confirm Brandow's estimates.

²⁹ Brandow. *Op. cit.*, p. 59.

³⁰ This statement assumes that Federal order prices are not influenced by the level of premiums; that is, that the Federal order class I prices would have been the same regardless of whether premiums existed.

Table 6.—Average superpool and Federal order class I prices and premiums, 13 midwestern fluid milk markets, selected dates, 1960-68

Date	Average class I superpool price	Average class I Federal order price	Average class I premium
<i>Dollars per cwt.</i>			
May 1960	4.48	4.36	.11
October 1960	4.91	4.86	.05
May 1965	4.61	4.46	.15
October 1965	5.06	4.83	.23
April 1968	6.19	5.68	.51
May 1968	6.36	5.96	.39
October 1968	6.41	6.07	.34
1968	6.33	5.93	.40

Source: Study of bargaining developments in midwestern fluid milk markets, Dept. Agr. Econ., Purdue Univ., 1969.

With declining milk production, premiums began to reappear in 1965—particularly in the Great Lakes Federation region. Thus, in May and October 1965, superpool premiums were respectively 15 and 23 cents per cwt. for the 13-market midwestern region (table 6).

In August 1966, the Great Lakes Federation announced its first federationwide superpool premium. The size varied from \$1.10 per cwt. in the Detroit market to 10 cents per cwt. in Pittsburgh. The first federation premiums generally ranged from 40 to 50 cents per cwt. on class I milk. In April 1968, the average class I premium for 13 midwestern milk markets was 51 cents per cwt. An increase in the support price for milk in May 1968 reduced the premium to 39 cents per cwt. in May and 34 cents in October (table 6).

A few markets have been relatively unsuccessful in negotiating premiums over Federal order prices. An example is the Des Moines, Iowa market, where no premiums were negotiated during the study period. This resulted largely from competition among cooperatives for class I milk outlets, when only the Des Moines cooperative was a member of the bargaining federation. The competition was spurred by two factors. First, a pronounced geographical shift in milk production in Iowa

from the southern and western to the northern and eastern portions of the State placed northeastern cooperatives in a growth position with excess milk supplies. Second, these cooperatives had traditionally shipped substantial quantities of milk to markets in the South, such as Memphis, Tenn. Federation activity closed off several of these southern markets to Iowa cooperatives. As a result, nonmember cooperatives searched for new markets. Des Moines processors constituted such a market. Under these conditions, an alternative source of supply was readily available to Des Moines processors and no premium could be negotiated.

Federal Order Prices and Provisions

As indicated previously, producer groups have been actively participating in Federal order hearings to obtain provisions favorable to their producer interests. This activity has taken the form of both obtaining provisions to strengthen the cooperatives' bargaining position and obtaining higher minimum milk prices through the Federal order system. Better Federal order price alignment and consolidation of market orders have aided in strengthening the cooperatives' bargaining position in several instances.

Regarding pricing, bargaining cooperatives uniformly recognized that the price structure becomes more stable if the premiums are integrated into the Federal order pricing structure. Thus, a major initial thrust of producer activity, after premium negotiation began in 1966, was to encourage the Secretary of Agriculture to place a floor of \$4.05 per cwt. on the Minnesota-Wisconsin price series and to obtain suspension of Federal order seasonal pricing provisions which reduced the class I price of milk in the spring. Recognizing the interest of milk producers and the declining production of milk, the Secretary announced action to this effect in April 1967 for 51 order markets on a temporary basis through 1968. This resulted in a price increase of 23-24 cents per cwt. for most markets in the central United States during 1967 and 27-29 cents for most

midwestern markets during 1968 and 1969.³¹ Central U.S. bargaining cooperatives, along with cooperatives in other areas of the United States, independently and through the National Milk Producers Federation, supported and encouraged the Secretary's action.

Support Prices

The influence of cooperative groups on milk prices is not limited to their direct influence on class I prices through the negotiation of premiums over Federal order prices or to their indirect influence on prices through changes in the Federal order pricing system. Producer cooperatives in the Central United States have also placed substantial emphasis on raising milk prices by obtaining increases in the support price for milk.

The rationale for this emphasis on support price increases is threefold. First, such increases result in market price increases for manufactured dairy products and manufacturing milk (table 7). The class II price for milk is frequently identical to either (1) the manufacturing milk price as determined by the Minnesota-Wisconsin price series, or (2) a formula based on either the price of butter and nonfat dry milk or the price of cheddar cheese. Second, producers recognize that to bargain for higher milk prices in the long run, producers in Minnesota and Wisconsin must be satisfied with the prices they are receiving for milk used for manufacturing purposes. If they are not satisfied, the likelihood is increased that milk qualified for fluid use will be shipped into other markets and will undermine the premium structure. Third, support price increases are reflected in the class I price through the class I formula. Therefore, increases in the support price generally mean higher class I prices.

Support prices for manufacturing milk have increased substantially since cooperative federation activity began in 1960 (table 7). From

Table 7.—Support and market prices per cwt. for manufacturing milk, United States, 1960-70

Marketing year beginning April 1	Support price	Market price
	<i>Dollars per cwt.</i>	
1950-60	3.06	3.22
1960-61		3.31
Apr. 1-Sept. 16	3.06	
Sept. 17-Mar. 9	3.22	
Mar. 10-Mar. 31	3.40	
1961-62	3.40	3.38
1962-63	3.11	3.19
1963-64	3.14	3.24
1964-65	3.15	3.30
1965-66	3.24	3.45
1966-67		4.11
Apr. 1-June 30	3.50	
June 30-Mar. 31	4.00	
1967-68	4.00	4.07
1968-69	4.28	4.30
1969-70	4.28	4.54
1970-71	4.66	

Source: U.S. Department of Agriculture. *Dairy Situation*. DS 330, Wash., D.C., May 1970, p. 8.

1959-60 to 1968-69, the period for which comparable 13-market data were available, the support price increased 39.8 percent—from 3.06 to 4.28 cents per cwt.

All of this \$1.22 increase in the support price is obviously not due to federation support and pressure for higher support prices. A milk production decline of 5.88 percent—from 123.11 million pounds in 1960 to 117.23 million pounds in 1968—would, itself, be expected to result in a substantial milk price increase. It was concluded, however, that the increase in the support price was greater than could be accounted for by this 5.88-percent decline in milk production. Using an elasticity of demand of $-.40$ for milk at the farm level, one would expect a market-price increase of 14.7 percent due to the production decline, with competitive market-clearing conditions and demand held constant.³² The actual support price increase was \$1.22 per cwt., or 39.8

³¹ U.S. Department of Agriculture. *Federal Milk Order Market Statistics*. Consumer and Mktg. Serv., Dairy Div., Stat. Bul. Nos. 426, 437, and 463, Wash., D.C.

³² Elasticity of demand = (Percentage change in quantity)/(Percentage change in price) $-.40 = (5.88 \text{ percent})/(14.7 \text{ percent})$. The elasticity of demand for milk at the farm level was estimated as $-.40$ by G. E. Brandow.

percent—more than double the market price increase predicted under competitive conditions.

Such a procedure—using competitive market conditions—for analyzing the impact of co-operatives on support prices for manufacturing milk gives a very crude approximation for several reasons. First, the approximation is made with some very restrictive assumptions.³³ Second, the method of estimation used is not entirely appropriate for the price discrimination model presented previously. Third, the estimate varies depending on the period of analysis. If 1964-70 had been used instead of 1960-68, the production decline would have been 7.9 percent and the expected market-price increase, 19.8 percent. The actual increase during 1964-70 was 47.9 percent. Fourth, the specific effects of inflation and technological change on the price of manufacturing milk were not adequately analyzed and considered in this procedure. Fifth, the market price of manufacturing milk was above the support price during most of 1960-70. This could indicate that the support price was only following the market trends.

For these reasons, the impact of co-operatives on the market price of manufacturing milk cannot be adequately resolved. In addition, it might be argued that to stem the downward trend in production, an overreaction in support price response was required. Also, from a practical standpoint, the Agricultural Act of 1949, as amended, required that the price of manufacturing milk be maintained at 75 percent of parity level or above. This statutory requirement would set the minimum support price for milk in 1968 at \$3.59 per cwt., or 17.3 percent above the \$3.06 level which existed in 1960. The law thus required a greater change in price than that suggested by a competitive equilibrium.

³³ These include: (1) competitive market-clearing conditions exist, (2) demand for milk is constant, (3) supply of milk is perfectly inelastic, (4) the support price rises proportionately with the general price level for milk, and (5) increases in the price level due to inflation are offset by increases in the efficiency of producing milk due to "improved technology and higher production per cow."

Regardless of these weaknesses, that part of the residual in support price increases which cannot be explained by declining production can apparently be attributed to cooperative bargaining. Midwestern merged and federated producer groups were clearly leading the parade to obtain higher support prices. These efforts appear to warrant important consideration as contributing to substantially higher support prices for milk during 1960-68.

Producer Prices and Incomes

Increases in superpool premiums and support and Federal order prices have been reflected in higher producer prices and incomes. The net blend prices for milk received by grade A producers in the 13 midwestern markets studied increased about 31.6 percent—from \$4.21 in 1960 to \$5.54 in 1968 (table 8).

Table 8.—Average net milk price paid producers in 13 midwestern markets, 1960, 1965, and 1968

Period	Average producer net price for milk ¹
	<i>Dollars per cwt.</i>
May 1960	3.84
October 1960	4.58
1960	4.21
May 1965	3.94
October 1965	4.59
1965	4.27
May 1968	5.30
October 1968	5.79
1968	5.54

¹ The average producer price for 1960, 1965, and 1968 was computed as the mean of the May and October prices for the respective years. The net blend price is the actual net price received by cooperative producers for milk, including all cooperative checkoffs and per unit capital retains. It does not consider producer hauling charges.

Source: Study of bargaining developments in midwestern fluid milk markets, Dept. Agr. Econ., Purdue Univ., 1969.

However, indicators relating to the effect of higher prices on producer incomes are crude and inadequate. Available evidence suggests that the milk price increases have substantially enhanced producer incomes. USDA studies

indicate that returns to labor, management, and capital on a representative eastern Wisconsin dairy farm equaled nearly \$6,000 in 1960. In the same area of the State, returns to labor, management, and capital on a 40-cow commercial dairy farm amounted to over \$13,000 in 1968. The hourly return to operator and family labor on these farms increased from 57 cents in 1960 to \$2.47 in 1968.³⁴ It has been estimated that their net farm income was about \$6,000 higher in 1969 than it would have been at 1965 prices, reflecting the fact that price increases have substantially exceeded increased milk production costs.³⁵

Higher returns for dairy farms during the late 1960's were also reflected in the "Indiana Farm Business Summary" for Indiana dairy farmers. Dairy farm income increased nearly threefold during 1960-69—from \$6,684 to \$19,630. For 1960-66, dairy farm incomes averaged 4.6 percent return on investment. Crop-hog farm incomes averaged 6.0 percent return. Dairy return on investment exceeded crop-hog return in only 1 of the 6 years prior to 1966 (table 9). From 1966 through 1969, dairy income return on investment averaged 6.0 percent and crop-hog income, 4.7 percent. Dairy return on investment exceeded crop-hog return in 3 of the 4 years (table 9).

The substantially higher dairy investment return does not mean that the price increases which occurred during the 1960's were either unwarranted or unjustified. Returns to dairy farmers during the early 1960's were extremely low. The result was a substantial net exit of producers from the industry. On the other hand, while dairy incomes were low relative to incomes from other types of farming during the early 1960's, this condition has by now substantially reversed itself.

The price and income increases in the dairy industry did not come without higher costs.

³⁴ U.S. Department of Agriculture. *Costs and Returns*. FCR-60-68. Wash., D.C., 1960-68.

³⁵ Babb, E. M. *Current and Prospective Dairy Programs and Policies in U.S.: Support and Other Price and Income Programs*. No. Central Regional-70 Seminar, Sept. 14, 1970, Chicago, p. 3.

Table 9.—Net dairy farm income and return on investment compared with crop-hog farm income and return on investment, Indiana, 1960-69

Year	Dairy		Crop-hog	
	Income	Return on investment	Income	Return on investment
	Dollars	Percent	Dollars	Percent
1960	6,684	3.9	13,510	6.3
1961	7,938	5.1	12,371	5.4
1962	7,148	3.9	17,383	8.5
1963	8,777	5.3	14,578	6.1
1964	8,678	4.0	9,536	2.2
1965	10,815	5.3	23,574	7.7
1966	12,739	6.6	21,711	4.7
1967	12,083	3.8	7,867	.1
1968	16,544	6.8	21,211	4.4
1969	19,630	6.8	39,995	9.7

Source: Indiana Farm Business Summary, 1960-69.

Study data indicate that the cost of operating the regional and federated cooperative network is at least double that of operating individual market cooperatives prior to the federated and regional cooperative bargaining efforts. That is, whereas individual marketing cooperatives normally incurred costs averaging about 10 cents per cwt., regional cooperative costs of 20-25 cents per cwt. were not uncommon. These higher costs are to be expected because of new functions performed by cooperatives in the bargaining and marketing process. Regional bargaining activities have required financial support for the standby pool; increased transportation of milk to fulfill full-supply obligation and maximize fluid milk use; writing off of unneeded and obsolete plant capacity; increased expenditures to support the establishment of public policy programs to benefit milk producers; expanded promotional and product research programs; and hiring of new management personnel.

Such higher costs must, however, be considered relative to the benefits to milk producers in producer returns. Better price alignment has meant a more equitable distribution of the benefits of bargaining among producers. At the same time, regional

cooperative activity has made the milk cooperative in the central United States considerably more sound financially as the cooperatives move toward a shorter term and more regular revolving schedule.

Effects on Handlers

Bargaining for premiums has had some rather profound and variable effects on handlers. The most obvious effect is that it has required that milk prices move upward. With only a few exceptions, handlers and retailers have been quite successful at passing on the \$1.50-producer price increase which has occurred since 1960 in the 13 markets studied. In several instances a producer price increase was viewed favorably by handlers because it gave them an opportunity to increase their price in an amount greater than the producer price increase. Thus, they recovered increasing costs and had a margin for profit.

An observation can be made about the change which has occurred in price movements. Originally, producer groups moved prices in 25-cent increments. In several instances, support prices and, correspondingly, Federal order class I prices were also moved in 25-cent increments. With 23 half-gallons of milk in a cwt., this meant that if handlers moved the price of milk by 1 cent per half-gallon, they could not cover the increased cost of milk. Because of the publicity associated with milk price increases in many markets, movements of more than 1 cent were sometimes difficult to accomplish. In a time of inflation, persistent 25-cent price increases put increasing pressure on handler profit margins.

Realizing this problem, cooperatives appear to be changing their price increases to about 17 cents per cwt. or multiples thereof. A 17-cent increase provides the handler with a margin of 5 cents per cwt. to cover his increased costs.

The second effect of bargaining on handlers is the limitation of direct handler access to alternative sources of milk supplies. Price alignment, the standby pool, and increasing cooperative emphasis on full-supply

arrangements have virtually cut off alternative bulk sources of milk supply to the handler except during deficit production periods. At the same time, in most markets, the local cooperative can today assure the handler of direct access to surplus milk supplies during deficit production periods and, therefore, can assure him of being able to supply his full milk needs. Whether freedom to buy milk from any source is fully substitutable for full-supply security appears to be a matter of individual handler preference.

A third effect of bargaining on the handler is to increase the stability and uniformity of raw milk prices. The elimination of the supply-demand adjuster from many Federal order markets has virtually ended monthly fluctuation in fluid milk prices. Some handlers believe that this fluctuation was a source of price instability and intense competition in certain markets. Clearly, increased producer organization and price alignment efforts have resulted in more uniformity of prices over a wider market area. Increased mobility of milk forced cooperatives to carefully consider the effect of price changes on handlers' intermarket distribution. As a result, price uniformity among markets is considerably greater today than in previous periods.

Cooperative Manager and Handler Attitudes

Cooperative managers and handlers were asked to rate on a 10-point scale their attitudes toward 10 prescribed statements about specified cooperative bargaining activities during 1967-68 (table 10). Disagreement with each statement could be expressed by a rating as high as -5, agreement by a rating as high as +5. A zero rating indicated neutrality or no opinion. (Responses, of course, are subjective, as are some of the prescribed statements.)

Cooperative manager and handler attitudes toward the bargaining movement differed substantially. The differences in mean attitude scores were statistically significant for eight of the 10 statements.

Table 10.—Cooperative manager and handler attitudes toward bargaining activity, 16 cooperative managers and 39 handlers, midwestern United States, 1969

Statement	Cooperative management rating		Handler rating	
	Mean	Standard deviation	Mean	Standard deviation
The cooperative bargaining group				
1. Has benefited producers	4.6 ¹	.7	1.7 ¹	3.3
2. Has effectively controlled the movement of milk	0.5	2.0	0.1	2.9
3. Has improved the efficiency of milk procurement and allocation	1.7	2.8	0.2	3.1
4. Has increased milk prices too much	-3.9 ¹	1.9	0.9 ¹	2.8
5. Has not increased milk prices enough	-0.7 ¹	2.2	-2.2 ¹	2.3
6. Has made demands of handlers which are unreasonable	-3.6 ¹	1.8	0.8 ¹	3.3
7. Has hurt handlers	-3.8 ¹	1.7	0.7 ¹	2.8
8. Has hurt consumers	-4.0 ¹	1.4	0.6 ¹	3.4
9. Eliminates the need for Federal milk orders	-4.9 ¹	.4	-2.0 ¹	3.7
10. Should have the power to control milk production7 ¹	3.6	-3.0 ¹	2.5

¹ Indicates statistically significant differences between cooperative and handler means at the 5-percent level.

Source: Survey of bargaining developments in midwestern fluid milk markets, Dept. Agr. Econ., Purdue Univ., 1969.

The higher standard deviation for handlers indicates considerable variability in their attitudes toward the bargaining movement, apparently for two primary reasons. First, as discussed previously, the effects of bargaining on handlers in different market areas differed because of market conditions and cooperative strategies. For example, the competitive conditions existing in some areas made it somewhat easier for the handlers to pass price increases on to consumers. Second, cooperative handler relations differed substantially from market to market. Handlers appeared to be much more favorable to the bargaining movement in areas where the cooperative took time to explain pricing policies and considered the handlers' needs in price movements. Interestingly, handler attitudes exhibited the most variability among markets where the highest premiums were negotiated. Thus, in some of these markets, cooperatives have been successful in maintaining a relatively good rapport with handlers.

The cooperative managers strongly supported bargaining activity except in statements 2 and 3 concerning their ability to control milk movements and improve efficiency in milk procurement and allocation. Handlers, on the other hand, exhibited relatively neutral attitudes toward the bargaining movement except in statement 5 concerning further price increases.

Both cooperative managers and handlers recognized the continuing need for the Federal order pricing system. Cooperative managers viewed this system as an important part of their bargaining strategy because it provided minimum prices from which to bargain and a basis for integrating bargaining gains into a legislative and administrative framework. Handlers particularly believed that the audit provisions of the orders were essential. They indicated that the price uniformity function of Federal orders was diminished somewhat by premiums. That is, they were concerned about the ability of the cooperative to extract

premiums from all handlers and about the possibility of a discriminatory premium structure.

While handlers did not consider milk prices to be too high, they thought that the Federal order prices ought to be used to establish the price level necessary to bring forth the desired

production, and that there should be no premiums over Federal order prices. The cooperative managers, of course, strongly disagreed with such a contention. To support their position, the enabling Federal order legislation specifically establishes order prices as minimum prices.^{3 6}

Dairy Cooperative Mergers in the 1970's

This report has described cooperative efforts to obtain bargaining power in the dairy industry during 1960-70. While precise estimates of their effect on prices and producer income could not be made, evidence indicates, at least in the short run, that cooperatives have had some substantial influence in these areas. Dairy cooperative activity during the 1970's will determine in large part whether these bargaining gains can be sustained in the long run.

The mergers during the 1960's probably set the pattern for future cooperative mergers in the dairy industry. These changes will probably continue, with further consolidation of market activities. As suggested in discussions among the regional cooperatives considered in this study, further merger activity in the Central United States is a likely possibility. If milk marketing conditions and public policy toward cooperatives remain relatively stable, it is not hard to visualize two cooperatives controlling 90 percent of the grade A and grade B milk produced in the Central United States in 1980. As indicated in merger discussions on both the east and west coasts, three to five cooperatives could be formed nationally to handle over 75 percent of the grade A milk supplies in the major milk producing areas of the Northeastern, Central, and Western United States.

There are forces in cooperatives and the dairy industry which may tend to retard further extensive mergers in the study area. Some cooperative leaders are concerned that the consolidations have occurred so rapidly that there is need for a moratorium on mergers to allow the regional cooperatives to adjust internally before further merger activity is undertaken.

Current increases in milk production, with a relatively stable to declining demand situation, mean that price increases are not going to be as easy to obtain in the future. Extensive consideration needs to be given to alternative methods of controlling production, including consideration of both cooperative and governmental action. At the same time, the impact of substitute milk products—particularly in the manufactured product area—needs to be considered in each pricing decision. New product development and promotional programs can be an important offensive adjunct to a defensively wise pricing program.

If production continues to increase in the 1970's with demand relatively constant, cooperatives will face a major test in retaining members' confidence. They have the alternatives of either controlling milk production or educating their members to accept lower milk prices. There is evidence to indicate that producers are beginning to expect substantial yearly milk price increase regardless of supply and demand conditions. Getting such increases will probably be impossible without effective means of supply control.

The switch of large numbers of producers from grade B to grade A milk production in Minnesota and Wisconsin is a manifestation of the problem of maintaining supply control. The effect of this switch is a relatively rapid dilution of standby pool returns, resulting in lower premiums per cwt. paid to milk in the pool. In the long run, this dilution could result in a substantial loss of cooperative control over Minnesota-Wisconsin milk supplies. The solution does not appear to be simply increasing

^{3 6} *Agricultural Marketing Agreement Act of 1937, Sec. 8C, 19 U.S.C. 118.*

contributions to the standby pool, because this would only accelerate the switch to grade A production. Innovative methods of market sharing, pricing, and production control will be required.

Another perplexing problem for the regional cooperatives is that of retaining close communication with members. Individual members complain that they do not have a voice in the new large organizations. This is true even when the former local cooperative boards of directors are kept intact as advisory boards.

In the long run, cooperatives must continue to emphasize milk marketing to the best advantage of cooperative milk producers. What functions regional cooperatives will perform by the end of the 1970's will be importantly influenced by changes presently occurring in the fluid milk packaging, distribution, and retailing segments of the industry.

There are indications that traditional national and regional dairy companies are consolidating their market position in the industry in favor of investment opportunities in other product areas. If this movement continues, milk cooperatives might be forced to enter fluid milk processing and distribution on an increasingly large scale. Such a change would require an extremely large commitment of capital to the industry by producers and their cooperatives.

The influence of an additional important market force has been accelerating over the past 10 years. Approximately 50 percent of the total fluid milk sold today moves through retail foodstores. About 10 percent of this milk, or 6 percent of the total fluid milk sales, is packaged in plants owned by food retailers.

The percentage of milk packaged by food retailers will continue to increase during the 1970's. This transformation means that cooperatives will be selling an increasingly large proportion of milk to retailer-owned fluid milk and manufactured product processing facilities. These retailers are masters at multiproduct purchasing and marketing. They will pose a new bargaining challenge for regional cooperatives. They may offer opportunities for joint ventures between cooperatives and retailers in milk packaging and manufactured dairy product processing.

Over time, if the cooperative bargaining position does become solidified to the extent that these groups obtain control over milk production as well as marketing, a case can be made for less government involvement in the milk industry. In the process, the producer segment of the industry could be made more directly responsive to market forces as they arise.

The very concept of a relaxation of Government programs would place new responsibilities in the hands of cooperative producers and leaders. These responsibilities involve both short- and long-run producer and consumer interest in the milk industry. Restrained use of a superior market position will be required to fulfill the longrun interests of producers in stabilized milk production, prices, and incomes. Restrained use of market power is also necessary to retain the support and confidence of a body politic which has historically questioned the desirability of monopoly market positions while at the same time believing in the desirability of self-help action programs.

Prerequisites to Successful Bargaining

Five prerequisites are necessary for successful cooperative bargaining—product control, recognition, discipline, efficiency, and production control. While the bargaining route is not easy and requires strong cooperative leadership, cooperatives have tools which can aid in meeting these prerequisites. In addition, governmental policies favorable to cooperatives

can be an important adjunct to cooperatives in their efforts to obtain higher prices by bargaining.

Product Control

The initial success of bargaining activity in milk can largely be attributed to the ability of

cooperatives to organize and control the flow of products to the vast majority of milk processors who compete with one another in the processed product markets. In markets where this degree of control was not acquired, negotiated premiums were small and in some cases nonexistent. The existence of a secondary market, in which excess product supplies can be placed with little effect on product price in the primary market, was an important contributor to bargaining success.

For products whose markets are national in scope or where intermarket product movement is economically feasible, the control required is more than that of the immediate market area. Instead, the control of all alternative lower cost sources of supply is needed. Where imports compete directly with domestic production, public policies to control them may be required for successful bargaining.

Recognition

For effective bargaining, processors must recognize the cooperative as the exclusive bargaining agent for producers. Recognition comes after the cooperative establishes effective product control. Without product control, the processors can obtain supplies elsewhere rather than bargain with the cooperative. When the cooperative demands a higher price, the processor sees his competitive position being threatened. He, therefore, wants to be sure all his competitors will be paying the same price.

An important starting point for obtaining recognition is having something tangible to offer the buyer in return for a higher supply. The offer may be better coordination of milk supplies and surplus disposal, a commitment to supply the buyer his full product needs, or improved product quality. Such an offer provides a point of departure for discussing product prices and the extent of product control.

The ultimate test of a cooperative's strength occurs when a buyer refuses to come to terms. At this point, cooperative solidarity and control—founded on the five prerequisites for

successful bargaining being discussed—are critical. If a substantial-sized buyer can fulfill his needs from alternative sources at a lower price, the bargaining effort will probably fail. The study indicates that, while federations of cooperatives have a role in the bargaining process, individual components of the federation are more subject to local market pressures. Local price demands can differ from those advocated by the federation. If member cooperatives respond to local pressure, the federation's pricing structure can break down. A merged cooperative organization can act as a more unified single decisionmaking unit from a position of strength, knowing that there will be no break from the established bargaining policy.

Discipline

The confidence or *esprit de corps* instilled in members during the organization of the cooperative significantly influences the degree of disciplinary power over members during stressful periods.

The best disciplinary tool is success in bargaining. If the initial bargaining effort is successful, members will support the cooperative's bargaining activities. If the initial bargaining effort fails, it is difficult for the cooperative to recover as members become disenchanted with the bargaining cause.

Marketing contracts can be used to create a legal obligation on the part of the producer to deliver his product at the discretion of the cooperative over a specified period of time. A contract is not meaningful unless the cooperative continually exercises its contract right to direct the marketing of its members' product. Members must be identified with the cooperative—not with a processor—and the cooperative must be responsible for marketing decisions—not the producer or other processors.

Efficiency

Bargaining costs money and producers become concerned with the increased costs

associated with the cooperative as it changes from a marketing to a bargaining strategy. This concern arises in part because of the realization that nonmembers do not pay the costs of bargaining but generally participate in the benefits.

The cooperative needs to be aware of this cost problem. It needs to keep members appraised of cost levels and the reasons for increased costs. The emphasis in bargaining must necessarily be on costs relative to benefits. At the same time, expenditures must be carefully scrutinized to see that the cooperative is using its money efficiently.

Production Control

Increased production is a logical response to higher product prices. For milk, such a response has been considerably slower in occurring than most economists would have predicted. For many other commodities, this

response would be expected to occur considerably more rapidly.

Uninhibited increases in production will necessarily undermine the cooperative bargaining effort in the long run. Cooperative production control programs are inherently weak unless: (1) they are mandatory within the cooperative; (2) the cooperative controls all production; and (3) entry into production is restricted. As a result, public policies may be required for effective cooperative production control programs.

If production control does not exist and if the Government does not stand ready to buy up surplus production, the longrun gains from bargaining can be expected to be rather minimal. The class I base plan in the dairy industry could, if properly amended and interpreted, stand as an important longrun production control tool for retaining bargaining strength. Yet it may be difficult to convince producers that production control is necessary until substantial price erosion occurs.

Implications for Bargaining in Other Agricultural Products

What can be learned from the bargaining experience in the dairy area that can be applied to other commodity areas? What conditions have made bargaining successful in the dairy industry? Can a similar bargaining framework be applied to other agricultural products? If so, what adjustment in cooperative strategy might be required?

The dairy bargaining experience indicates that bargaining could be used for certain major agricultural commodities to raise the level of product prices. Also, cooperatives for these commodities may have a comparative advantage over traditional farmer bargaining organizations in achieving higher prices.

This comparative advantage arises from the fact that the cooperative is a formal organization to which its members are committed. It has facilities to funnel the product into the market as needed. With surplus processing facilities and storage capacity, the cooperative

could then divert unneeded supplies through surplus handling facilities.

Despite this comparative advantage, cooperative bargaining harbors many of the disadvantages associated with any voluntary bargaining group. That is, while contracts can be established and enforced to create a continuing obligation for the producer to market his product through the cooperative, cooperative members must bear the costs of bargaining while both members and nonmembers benefit from the bargaining gains.

Though a comparative advantage may exist for bargaining via cooperatives, there are no shortcuts to an effective long-lived bargaining program. It is fashionable today to speak of a systems approach to marketing, meaning that success in marketing is determined in large part by the ability to systematically perform several functions in the marketing system to maximize returns for the whole system. Thus, feed

suppliers in the broiler industry have arranged for planning, acquisition of capital, construction of facilities, acquisition of chicks, veterinary services, least-cost feed formulation, feed supply, marketing, slaughtering, and sale to supermarkets.

An analogous total systems approach is required for effective bargaining. Shortcuts reduce both the effectiveness and efficiency of the system. The *combination* of member contracts, merged regional organizations, hauler contracts, full-supply arrangements, and surplus facilities, as well as Government price supports and market orders, all combined to make the dairy bargaining program successful during the 1960's. In the 1970's, supply control programs will be required if prices are to be maintained. Additional supply arrangements, including cooperative arrangements for capital acquisition and construction of facilities, as well as management and feed supply services, may also be necessary.

The requirement of a total systems approach to bargaining has some important implications for cooperative bargaining as well as for bargaining in general farm organizations. A bargaining association is frequently defined as a cooperative which does not either *physically handle* or *take title* to the farmers' product but merely serves as the farmer representative in price negotiation. Such a definition is inconsistent with a systems approach to bargaining. An important question is whether a cooperative that does not physically handle and direct the production and marketing of a product can expect substantial longterm success at bargaining for higher prices.

While such a cooperative might perform an important coordinative function in bringing a group of farmers together and might capture some of the gains from better coordination, its success in this area may be limited by a lack of control over production and marketing facilities. The prerequisites to bargaining as established in previous studies, as well as in the dairy experience, indicate a radical change may be required in traditional thought concerning the structure and functions performed by a bargaining organization in the food industries.

The characteristics of milk and milk marketing have contributed importantly to cooperative bargaining success. The fact that no good substitutes for milk exist today makes demand for it quite inelastic. Thus, prices can be raised with a less than proportionate decline in the quantity demanded, and producer revenue will increase.³⁷ Available evidence indicates that the demand for most agricultural products except calves, sheep and lambs, and oil crops is also inelastic.³⁸ The demand for turkeys appears to be very close to unit elasticity, indicating little or no benefit from increasing prices by bargaining.³⁹

The supply response of producers to higher prices is slower for milk than for any other agricultural product except citrus crops. This lag in supply response has made it possible for the dairy industry to enjoy substantial price increases without imposing production controls. Other products, such as eggs, broilers, or vegetables, have a much shorter supply response, making production control necessary in a bargaining program at an early date.

The existence of a surplus market with a more elastic demand than that in the fluid milk market is another characteristic of the dairy industry that has been critical in bargaining efforts. It has made it possible for cooperatives to process and sell surplus milk products which do not again enter into direct competition with fluid milk. Government programs to purchase excess supplies of these manufactured products have also contributed to the cooperatives' bargaining success. Relatively few products have surplus market characteristics as desirable for bargaining as milk. Several, however, have

³⁷ This discussion does not consider the effect of a change in price and quantity demanded on costs and, therefore, on net producer revenue. Generally, one would expect average unit costs to increase slightly with reduced production, which reduces the income-enhancing effects associated with an inelastic demand. If the demand is elastic, average costs would have to fall extremely fast for an increase in net producer income to occur. The chance of this relationship occurring is very unlikely.

³⁸ Brandow. *Op. cit.*, p. 59.

³⁹ *Ibid.*

substantial secondary product markets; for example, cracked eggs, juice, and other processed foods.

As stated, an initially strong cooperative organization provides the base for effective bargaining. From the beginning of the bargaining movement, cooperatives have handled over 60 percent of the dairy products marketed in the United States.⁴⁰ In a survey of 71 Federal order market administrators, Dobson found that in October 1967, cooperative membership was 86 percent of the total number of producers.⁴¹ Almost half the markets had 95 percent or more cooperative membership.⁴² The study for the current report would tend to indicate that at least 75 percent of the products in the relevant regional or national market must be controlled by the cooperative for effective bargaining. Cooperative bargaining would appear to stand a greater potential for short-term success for those products where the proportion of initial cooperative product control is relatively higher. This control must be well established before bargaining efforts begin.

There is little doubt that the existence of a Federal marketing order pricing framework which establishes a minimum product price aids in bargaining. Its importance relates not only to the minimum price, but also to the possibility for cooperatives to influence Federal order provisions by participating in the hearing process. For milk, the Federal orders made price prescription a normal phenomenon to milk processors. As a result, processors did not view price prescription by cooperatives—premiums over Federal order prices—as a radical departure from the Federal order minimums. However, for products where the free market mechanism establishes price, bargaining does constitute a more radical

departure and might be expected to precipitate greater processor resistance.

For many agricultural products, governmental self-help programs can be used to aid cooperative bargaining activities. Marketing orders are available for a specified list of commodities including, with certain specific limitations, fruits, nuts, tobacco, vegetables, hops, and honeybees. Additional commodities could, of course, be added to this list with favorable congressional and Presidential action.

Marketing agreements can be used for essentially the same list of commodities. A marketing agreement is presently construed as a voluntary agreement between the buyer, the seller, and the Secretary of Agriculture concerning items such as product supply, price, or other terms of sales. It is compulsory only for the agreeing parties. It can aid in bargaining because once an agreement is reached between the buyer and seller, it can be enforced by the Secretary of Agriculture.

The Agricultural Fair Practices Act—S. 109—aids cooperative bargaining by declaring unlawful: (1) attempts to prevent producers from joining a cooperative, or (2) discrimination against members of a cooperative. This legislation should be useful to cooperatives in obtaining product control, recognition, and disciplinary powers over members.

In summary, there is no panacea or simple route to obtaining bargaining power for any agricultural product. Yet the success in milk makes successful bargaining in other commodities more possible. As increasingly powerful units form in all segments of agriculture, as control of the agricultural production plant appears to be increasingly at stake, and as the proportion of the population engaged in farm production declines, assessment of alternative cooperative strategies designed to help farmers help themselves becomes increasingly important. Bargaining may not be the answer for all or any agricultural products. But the dairy experience demonstrates that it is an alternative which has potential and needs to be considered.

⁴⁰ Abrahamsen, M. A. *Cooperatives Now and in the Future*. Farmer Coop. Serv., U.S. Dept. Agr., Inf. 62, Wash., D.C., June 1969, p. 7.

⁴¹ Dobson, W. D. *Op. cit.*, p. 216.

⁴² *Ibid.*

Other Publications Available

An Analysis of Alternative Price Structures and Intermarket Competition in Federal Order Milk Markets, Purdue University Agricultural Experiment Station Bulletin 870, W. D. Dobson and E. M. Babb.

Criteria for Evaluating Dairy Cooperatives, Bulletin 14, Stanley F. Krause and Joseph Cowden.

Dairy Cooperatives, Bulletin 1, Reprint 6, George C. Tucker and Donald R. Davidson.

Legal Implications in Coordinating Activities of Bargaining Associations, Information 63, David Volkin.

Antitrust Laws, Legal Phases of Farmer Cooperatives, Information 70.

Federal Income Taxes, Legal Phases of Farmer Cooperatives, Information 69.

Sample Legal Documents, Legal Phases of Farmer Cooperatives, Information 66.

Financial Structure of Farmer Cooperatives, Research Report 10, Nelda Griffin and Roger A. Wissman.

How Farm Marketing Cooperatives Return Savings to Patrons, Research Report 7, Donald R. Davidson.

Approaches and Problems in Merging Cooperatives, Information 54, Martin A. Abrahamsen and J. Warren Mather.

Statistics of Farmer Cooperatives, 1968-69, Research Report 16, Richard A. Ackley.

A copy of each of these publications may be obtained upon request while a supply is available from:

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